

churn. In this forecast, we examine three possible scenarios and the effect that these have on some of the KPIs:

- **Base scenario** – MNOs are reasonably aggressive in their pursuit of differentiation, following the recommendations from Analysys Mason. This base scenario is taken directly from Analysys Mason’s mobile broadband forecasts, in which it is assumed that this level of differentiation occurs.¹
- **Commoditised scenario** – MNOs make little-to-no attempt to differentiate their service offering, resulting in continuing rapid price erosion as they seek to gain market share.
- **Differentiated scenario** – MNOs pay a lot of attention to differentiating their service offering.

We have not modelled every possible scenario here. For example, in some countries some operators may actively differentiate while others choose an alternative strategy of aggressive price discounting. Where operators choose different strategies, each operator’s approach will have implications for its competitors. For instance, in a market where most MNOs are successful at differentiating their products, an MNO that adopts a price-leader approach will not have to discount as quickly as a comparable operator in a market where all the players adopt such an approach. The aim of this forecast is to place upper and lower limits on what effect differentiation can have on service adoption and, most importantly, revenue.

In this scenario modelling exercise, it is assumed that differentiation, or lack of it, will affect the market in two ways:

- **ARPU** – It is natural to assume that mobile broadband ARPU will decline globally in the next five years, simply as a result of the increasing numbers of lower-usage subscribers. This will dilute the whole subscriber base, resulting in a lower ARPU. However, price erosion can affect the degree of that decline. Rapid price erosion naturally results in lower ARPU. There is no evidence, either from the nascent mobile broadband market, or from more mature services such as mobile voice, to indicate that falling prices result in such a massive increase in usage as to generate greater ARPU. Prices will decline rapidly in countries where MNOs typically make little-to-no attempt to differentiate their mobile broadband services, as MNOs focus on reducing price as the way to gain competitive advantage and increase market share. As a result, we can safely assume that ARPU will erode much more rapidly in a commoditised scenario than in a differentiated one.

¹ For more information, see Analysys Mason’s [Mobile broadband in Europe: forecasts and analysis 2010–2015](#).

- Adoption** – The other major determinant of mobile broadband revenue is the number of connections. In a highly commoditised market, mobile broadband should become more affordable. A low-price one-size-fits-all product is universally appealing and adoption rates should be higher than in the differentiated market, although clearly with lower ARPU. For instance, business users would opt for low-cost consumer plans even though they are willing and able to afford a higher price. A successful differentiation strategy would see an MNO offer them a suitably appealing set of features to encourage them to pay a premium for an enterprise offer.

The impact of adopting a highly differentiated strategy is an increase in revenue of 17% in 2015 compared to the commoditised case, as shown in Figure 2.1. In Europe, this delta is equivalent to EUR2.5 billion of revenue in 2015. The driver for this is a 29% higher ARPU in the case of differentiated versus commoditised scenarios, albeit slightly offset by an 11% higher number of connections in the commoditised case. It must be noted that the amount of additional revenue generated in the differentiated case will justify investment in a number of network elements and service features. However, it will be difficult to justify a substantial investment in network capacity, for instance in the provision of a nationwide LTE network, on the basis of the additional revenue that would be generated. There are other reasons to invest in LTE, not least the greater spectral efficiency and thus the lower cost per gigabyte for delivering traffic, not considered here, but in revenue terms, massive investment in a national overlay network cannot be justified.

Figure 2.1: Mobile broadband service revenue based on three different scenarios, Europe, 2008–2015 [Source: Analysys Mason, 2010]

