Operators should explore sustainable approaches for implementing price increases

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Many countries are experiencing high levels of inflation, which poses a threat to telecoms operators' revenue margins and their ability to retain customers. Telecoms operators have been relying on the implementation of cost-efficiency and ad-hoc price increases to compensate for the industry's rising costs and operators' stagnating revenue. However, the high inflation rates of recent years have put operators under greater pressure. Operators need to raise their revenue in order to keep up with costs if they are to avoid margin pressure. In a market where subscriber numbers are near or at saturation levels, this involves raising prices.

Operators need to find sustainable ways to increase service prices in the medium to long term

The idea of price increases is never popular among customers, particularly in the current challenging macroeconomic context worldwide, characterised by high inflation rates and countries' slow GDP growth. Telecoms service prices have been declining in recent years and consumers are not used to paying more money for the same product, further complicating the introduction of price increases. Mobile operators that are considering increasing their prices need to take into account the market context and competitive environment in which they operate in order to improve ARPU levels and minimise churn.

Price increases come under different strategies defined by a number of variables or considerations. These strategies are grouped under three main categories (Figure 1).

Figure 1: Operators' main price increase strategies

Type of increase	Main characteristics	Examples
Index-based	▪ Price increase set in reference to a price index (CPI+, RPI+). ▪ No product/service upgrade. ▪ Recurrent and generally implemented at the beginning of the financial year.	▪ Vodafone UK makes changes to the price of its plans at the beginning of each financial year, taking the retail price index (RPI) or consumer price index (CPI) rates as a reference. In April 2023, the operator increased the price of its service plans by 14.4% (10.5% CPI +3.9%) for customers who subscribed to contracts after 9 December 2020.
One-off	▪ Ad-hoc price increase which is set out as a percentage or fixed amount. ▪ No product/service upgrade.	▪ Dialog Sri Lanka announced a 20% price increase across its entire mobile and fixed services portfolio in September 2022. ▪ Movistar Spain implemented an average price increase of 6.8% across its fixed, mobile and convergent services portfolio in January 2023. For

Type of increase	Main characteristics	Examples
	▪ Not linked to any specific time frame.	mobile, the price increase (4–5%) only affected two top-tier post-paid plans.
More-for-more	▪ Price increase combined with performance and/or service upgrade. ▪ Not linked to any specific time frame.	▪ Telstra (Australia) announced inflation-related price increases ranging from AUD1–4 per month on SIM-only postpaid plans. The increases, which affected new and existing customers, came with service upgrades in the form of faster speeds (access to Telstra's 5G network for customers on low-tier plans) and larger data allowances.

Source: Analysys Mason

While some of these strategies have proven useful to operators, they might not be viable in the long term. Operators need to find sustainable ways to deal with inflation and margin erosion. The following are some of the main implications they should take into account when considering price increases.

- **Sustainable price increases need to account for customer expectations**. More-for-more price increases have been widely adopted in the mobile telecoms services industry as this strategy helps operators to position the price change in a more favourable light for the customer. This strategy, however, might not be sustainable in the long term as it can generate the expectation that the value of customers' plans will increase with every price increase, something that will be difficult to sustain in the long term as operators risk running out of 'more' to give to their clients, particularly to those on unlimited data plans. Another risk associated with more-for-more price increases is that customers might not perceive value in the upgrade and might decide that the compensation offered by the operator is not enough to justify the price increase. This could lead to customers downgrading their plans if they think a lower-tier plan will cover their needs for a lower price.

- **Price increases need to be repeatable.** Annual index-based price increases with no value compensation are not common in the telecoms services industry aside from in a few countries, like the UK. This strategy, however, has been widely adopted in other consumer sectors such as public transport or energy, where it has proved effective in helping to manage customer price expectations. The telecoms services industry could benefit more from this approach.

- **Price increases are inevitable.** Leaving prices untouched can bring an important advantage to operators in countries where the established players have opted to increase prices. This strategy is mostly adopted by challenger operators that want to differentiate themselves from their competitors in markets where competition is based on price. However, locking prices might limit operators' opportunities to raise revenue, which would have a negative impact on margins, particularly when implemented as a medium- or long-term strategy or in countries with high inflation rates.

Many countries currently grappling with elevated inflation rates are unaccustomed to managing such economic challenges, and operators are not well-prepared to deal with it, particularly when it comes to implementing price increases. Even when inflation levels subside, operators will need to be able to increase prices and will need to implement the increases in a sustainable way.

For more information on price increase strategies, see Analysys Mason's *Mobile pricing strategies in a high-inflation context: 10 operator case studies* and *Mobile pricing strategies in a high-inflation context: insights for operators.*