

Operators in the Gulf could improve data monetisation by introducing flexible tariffs with more differentiation

February 2017

Karim Yaici

Telecoms operators in member states of the Gulf Cooperation Council (GCC)¹ have done well in the past thanks to the significant demand for data services, supported by a high level of smartphone penetration. However, the operators need to ensure that postpaid users maintain a high level of data usage and need to reach out to their lower-income prepaid users more effectively.

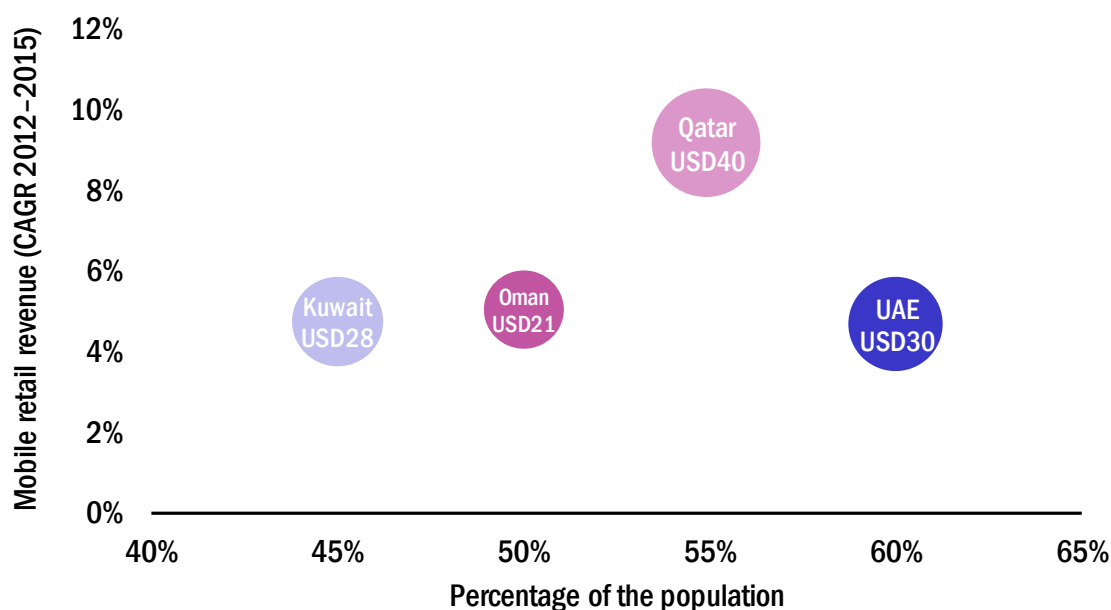
Operators in the region are introducing new approaches to stimulate usage and improve their ability to monetise data. In this comment, we will highlight two of these approaches – app-based pricing and low-speed free mobile data – which can help operators achieve these objectives while maintaining pricing discipline.

Operators in member states of the GCC need a broader variety of tariffs if they are to monetise mobile data traffic more effectively

There has been little or no differentiation of data tariffs in GCC markets. Telecoms operators have only limited control over mobile data pricing as a component of their marketing strategy. Regulators often impose strict controls on prices and discounts, and governments have partial ownership in one or more of the operators.

Mobile revenue has grown significantly in most of these markets during the past 4 years, driven by the large proportion of the population that owns a smartphone and has access to high-speed mobile data networks, supported by high level of disposable income per capita (Figure 1).

¹ Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE).

Figure 1: Mobile retail revenue growth (2012–2015), and smartphone penetration and ARPU (2015), by country

Source: Analysys Mason

However, operators are increasingly under pressure to improve the effectiveness of data monetisation tactics because the volume of mobile traffic is growing at a much faster rate than that of revenue, and spend in the high-end customer segment is saturating. Therefore, operators must encourage:

- postpaid subscribers to maintain the high level of data usage
- lower-income prepaid users, who are generally non- or low-data users, to increase their spending.

App-based pricing can increase mobile data usage among prepaid customers and appeal to higher-end segments

App-based pricing, which is defined as pricing mobile data traffic differently depending on the app (or service) type, is very common in emerging Asia–Pacific.² Operators regularly bundle popular OTT communication apps and discount the tariff on them. These tariffs offer a natural entry point for consumers to use mobile data and are well suited to prepaid users.

This strategy has made its way into the GCC region. In Bahrain, Kuwait, Saudi Arabia and the UAE, prepaid plans regularly include dedicated data allowances for OTT apps such as WhatsApp Messenger.

Operators in emerging Asia–Pacific (for example, in China, Indonesia, Malaysia, the Philippines and Thailand) are also moving to app-based pricing on OTT music and video services. Gulf-based operators are not yet adopting this approach, but we believe that the market conditions are favourable to the introduction of media services at a discounted price. Operators could gain from it by:

- claiming a premium positioning if they do not have a clear network advantage
- appealing to, and engaging with, the youth segment

² For more information, see Analysys Mason's [Mobile data monetisation in emerging Asia–Pacific: pricing and bundling strategies](#).

- controlling churn of high-value subscribers.

App-based pricing may initially appear to operators as another method for discounting mobile data, but they can effectively monetise the traffic on these apps if their pricing is based on actual average usage. A slightly underused data allowance on app-based pricing can have a higher effective price per gigabyte than that of a fully-used app-neutral data allowance (even if the former suggests discounted data prices on the face of it).

However, operators should position OTT media apps differently from OTT communication services because they aim to achieve two different goals (attracting new mobile data users for the former, and achieve differentiation through content exclusivity for the latter). In either case, operators should be wary of giving away too much too soon, to avoid limiting upsell opportunities.

Operators can reward prepaid top-ups with free data at reduced speeds, which can help to create a habit of mobile data usage

GCC markets have a predominance of prepaid customers and low-income foreigners. Operators are keen to get this population to increase data usage and even to convert them to becoming active data users, but pricing of prepaid data plans is not sufficiently appealing because unit prices are sometimes set at the same level as those of postpaid plans.

One of the approaches that operators in other parts of the world have adopted is to offer low-speed free mobile data. This enables customers to stay connected until their next top-up and prevents them from churning to other operators. This approach has been widely deployed in many countries including Brazil, Malaysia and Thailand. However, the introduction of such plans needs to be carefully managed:

- they should primarily target segments that have been difficult to convert into regular mobile Internet users
- ‘free’ Internet access should be offered only as a reward to a subscriber who tops up a minimum amount for mobile data allowance.

One of the risks of offering free low-speed mobile data is that subscribers will adjust their usage and spend to take advantage of such offers, limiting the potential for upsell. For this reason, it is important to limit the length of such promotional campaigns once data usage is deemed sufficiently stimulated.

Gulf-based operators should experiment with novel approaches to improve the effectiveness of data traffic monetisation and adapt them to the needs of their prepaid-dominant markets. They should also aim to increase the loyalty of postpaid customers, for instance, by helping consumers with the pricing of music streaming services first, then moving to video to maintain some differentiation as mobile data becomes commoditised. These tactics, as well as other tariff pricing strategies, are discussed in detail in [Monetising mobile data in the Gulf region: best practice in pricing and bundling](#).