



RESEARCH STRATEGY REPORT

DRIVING POSTPAID MIGRATION IN EMERGING ASIA-PACIFIC: STRATEGIES FOR SUCCESS

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About this report

This report assesses the best strategies for emerging Asia-Pacific (EMAP) mobile network operators (MNOs) seeking to encourage migration to postpaid handset offers.

The report also provides recommendations for EMAP MNOs looking to drive postpaid growth.

It is based on several sources:

- Analysys Mason's EMAP telecoms market forecasts and *Connected Consumer Survey 2016*
- interviews with EMAP MNOs.

KEY QUESTIONS ANSWERED IN THIS REPORT

- What are the benefits of migrating customers to postpaid offers for EMAP MNOs, in terms of increased ARPU, increased yield (revenue per gigabyte) and reduced churn?
- How can EMAP MNOs better assess customers' credit risks when considering offering them a postpaid contract, possibly including a subsidised handset?
- How can EMAP MNOs increase the appeal of postpaid tariffs relative to prepaid offers in order to maximise postpaid migration?
- How can EMAP MNOs modify their handset tariffs to maximise migration to postpaid contracts?

GEOGRAPHICAL COVERAGE

- Emerging Asia-Pacific
 - Indonesia
 - Malaysia
 - Philippines
 - Thailand
 - Vietnam



WHO SHOULD READ THIS REPORT

- Strategy teams in EMAP MNOs considering how to increase postpaid penetration of their subscriber bases.
- Strategy teams in EMAP MNOs implementing best practices for growing postpaid penetration, including in credit rating assessments, differentiation from prepaid, pricing and tariffing.
- Strategy teams in emerging regions worldwide that are assessing whether EMAP MNOs' strategies may help them drive postpaid penetration.

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Executive summary

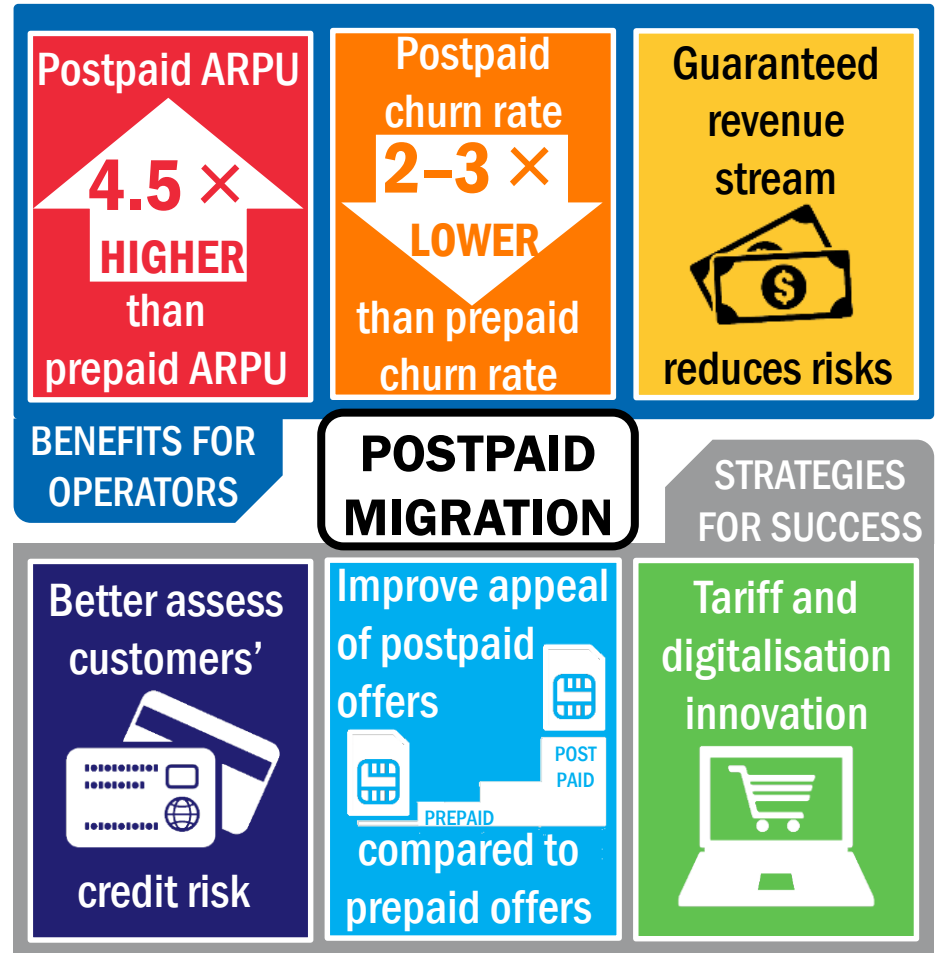
EMAP MNOs must do more to encourage postpaid migration. They need to better ascertain customers' credit-worthiness, increase the appeal of postpaid offers compared to prepaid ones (for example, through cheaper entry-level postpaid offers), and be more innovative in tariff design and digitalisation.

MNOs in EMAP are underachieving in migrating customers to postpaid tariffs compared to those in other emerging markets. They are therefore not benefitting from the associated increases in ARPU and data yield (revenue per gigabyte) and reductions in churn.

This report examines strategies that EMAP MNOs can use to encourage postpaid migration. It considers how operators can best assess customers' creditworthiness before migrating them and ways to increase the appeal of postpaid offers compared to prepaid ones. It concludes by assessing best practices for innovation in tariff design and digitalisation to drive migration to postpaid.

EMAP MNOs can use internal and external data more effectively to assess customers' creditworthiness and determine if they should be offered a postpaid contract, possibly including a subsidised handset. EMAP MNOs can increase the appeal of postpaid offers compared to prepaid ones by removing some prepaid features (such as unlimited data at throttled speeds) and pricing postpaid offers more realistically. They can also develop innovative tariffs to encourage postpaid migration, such as fixed-mobile bundles and unlimited plans.

Figure 1: Postpaid migration can deliver important benefits to EMAP MNOs



Source: Analysys Mason

EMAP MNOs are not migrating as many customers to postpaid contracts as those in other countries

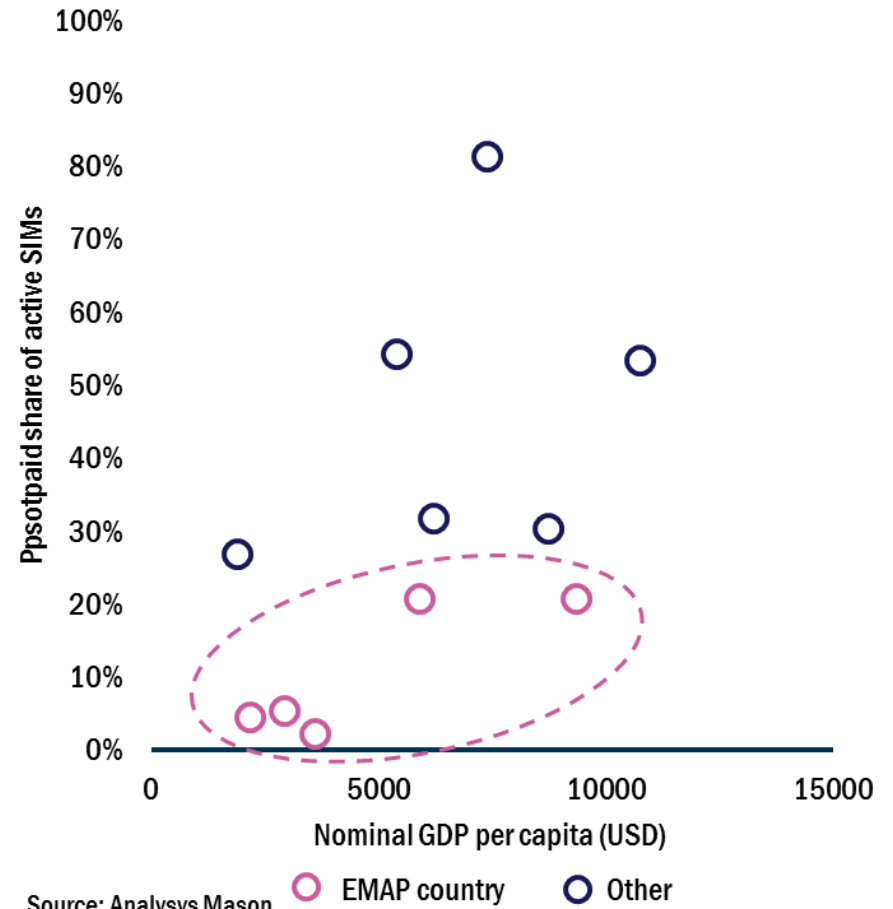
Operators in EMAP are not migrating many prepaid customers to postpaid offerings. Postpaid shares of subscribers in EMAP countries are far lower than in other countries with similar income levels.

Migrating customers to postpaid has the potential to increase ARPUs for EMAP MNOs. Postpaid handset ARPU in EMAP was 4.5 times higher than prepaid ARPU in 2016 and this ratio is similar in other regions, such as MENA where the equivalent figure was 3.7.

One reason that customers with postpaid tariffs may have higher ARPUs may be the added convenience of postpaid offerings compared to making top-ups with prepaid tariffs.

Operators will still benefit from postpaid migration even if prepaid customers moving to postpaid offers do not spend more. A further benefit of migration from prepaid to postpaid tariffs is that postpaid churn rates are much lower. Postpaid churn rates are 2–3 times lower than those of prepaid across several EMAP MNOs (see Appendix). Yield (revenue per gigabyte of data) may also be higher for postpaid than for prepaid customers. Moreover, postpaid migration provides MNOs with a guaranteed revenue stream that may be attractive to investors and reduces risks, such as voice substitution by OTT communications providers.

Figure 2: Nominal GDP per capita and postpaid share of active SIMs, 2016, selected countries



Better credit scoring, pricing innovation and improved differentiation from prepaid offers can all increase operators' postpaid shares

EMAP MNOs should focus on better credit scoring, ensuring postpaid offers represent good value compared to prepaid and innovation in tariffs and digitalisation if they intend to increase postpaid penetration.

EMAP MNOs will be in a better position to drive postpaid penetration if they can accurately assess the risk of customer default. One reason for this is that a customer's creditworthiness may be an important factor in offering a handset subsidy. Solutions to reduce the risk of default, such as making subscribers pay 2 months' subscription fees as a deposit, also have significant drawbacks in terms of driving postpaid penetration. Operators should consider collaborating with third parties (such as fintech credit-scoring companies) to assess customers' credit risks.

MNOs must ensure that postpaid tariffs are sufficiently differentiated from prepaid offers. One possible strategy could be to remove some features (such as unlimited throttled data) from prepaid tariffs. MNOs need to assess whether their postpaid tariffs are affordable compared to their prepaid offers. MNOs may be able to combine more-attractive postpaid pricing with removing prepaid features.

EMAP MNOs can also use innovative tariffs to drive postpaid penetration growth. Fixed-mobile bundles have helped to drive postpaid mobile penetration in Thailand. Postpaid overage and extra data charges are another area operators should investigate, as these can be sources of particular dissatisfaction for postpaid subscribers.

Figure 3: Three key focus areas for MNOs driving postpaid migration

Focus area	Effectiveness and details
<p>Better assessing credit risk For example, working with credit bureaus and third-party data analytics specialists</p>	<p>High effectiveness</p> <ul style="list-style-type: none"> Bad debt is a growing problem for some EMAP MNOs Using mobile usage records for credit scoring is limited at present, but may be worth exploring. Better credit scoring may lead to more handset subsidies, but these have not always driven postpaid growth in EMAP.
<p>Increasing appeal of postpaid offers relative to prepaid For example, reducing entry-level postpaid tariffs or removing features from prepaid</p>	<p>Medium effectiveness</p> <ul style="list-style-type: none"> Cheap, entry-level postpaid tariffs have proved popular in Malaysia. Many other EMAP markets lack similar tariffs and propositions.
<p>Tariff and digitalisation innovation For example, self-service apps for greater convenience or fixed-mobile bundles.</p>	<p>Medium effectiveness</p> <ul style="list-style-type: none"> The convenience associated with digitalisation is likely to be essential in future, but insufficient alone to attract a younger demographic to postpaid offers. Targeted advertising enabled by analytics platforms could be a promising way of driving postpaid growth. Fixed-mobile bundles have driven postpaid growth in Thailand and tariffs that eliminate overage concerns may also be effective.

Recommendations

1

EMAP MNOs should use internal and external sources of information to more effectively assess customers' creditworthiness, which they can then use to drive increases in postpaid penetration.

Postpaid penetration is higher in some emerging markets than in others due to the existence of external credit bureaus in these markets. MNOs in Indonesia could use the development of the country's first credit bureau as an opportunity to assess the credit rating of potential postpaid customers. Operators can also provide customer usage data to third-party analytics start-ups, which can then help MNOs develop better credit scoring ratings.

2

EMAP MNOs must increase the attractiveness of postpaid offers compared to prepaid ones.

One strategy MNOs could use to make postpaid offers more attractive compared to prepaid ones is removing some features from prepaid. For example, they could cease offering unlimited throttled-speed data as part of prepaid offers – this strategy has driven postpaid growth in Brazil. The pricing of postpaid offers compared to prepaid one is also unrealistically high in some cases, and MNOs can do more to develop attractive entry-level postpaid tariffs.

3

EMAP MNOs must offer innovative tariffs if they are to drive postpaid migration.

A number of approaches to tariffs can be used to drive postpaid migration. Reducing the prices of extra data top-ups when users exceed their monthly allowance could play an important role in markets such as Malaysia. Fixed-mobile bundles have been an important driver of postpaid penetration in Thailand and this strategy could be replicated elsewhere.

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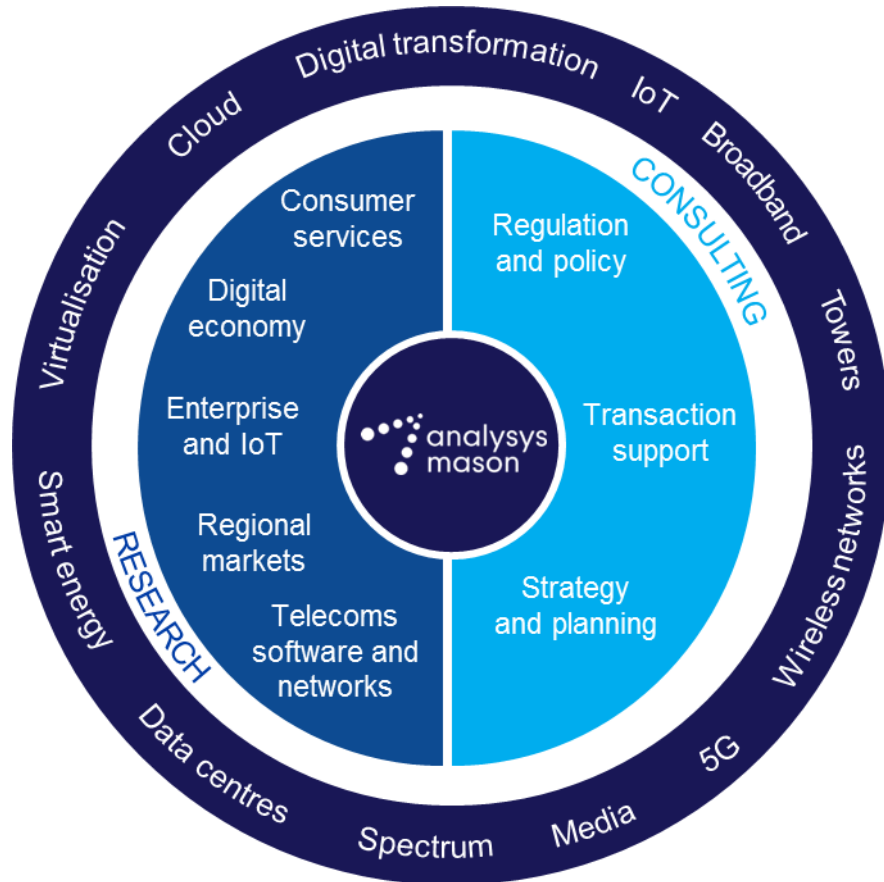
About the author



Stephen Wilson (Principal Analyst) contributes research to our *Fixed Networks* research programme. He joined Analysys Mason as a Senior Analyst in November 2012, having previously worked for Informa Telecoms & Media. Stephen has more than 5 years of experience covering the telecoms industry and specialises in analysing fixed broadband access technologies and strategies, as well as developments in European telecoms markets across fixed and mobile sectors. He has produced reports on DSL acceleration technologies as well as regular updates on European markets, notably in Central and Eastern Europe. Stephen is a graduate in Politics, Philosophy and Economics from St Catherine's College, Oxford University.

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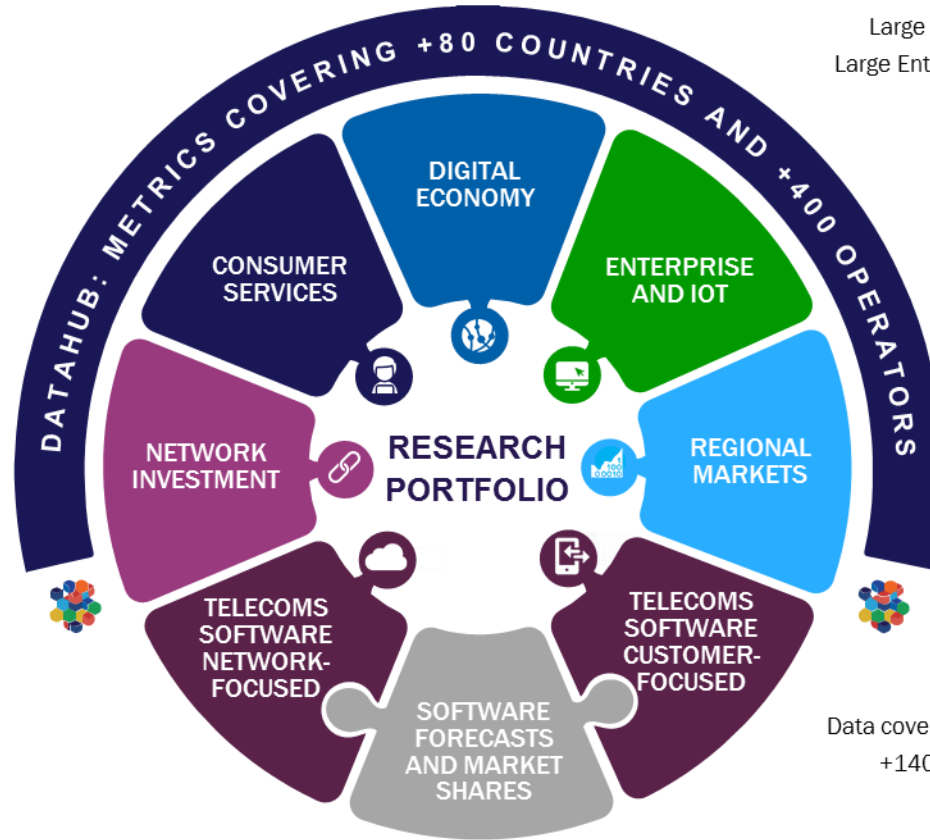
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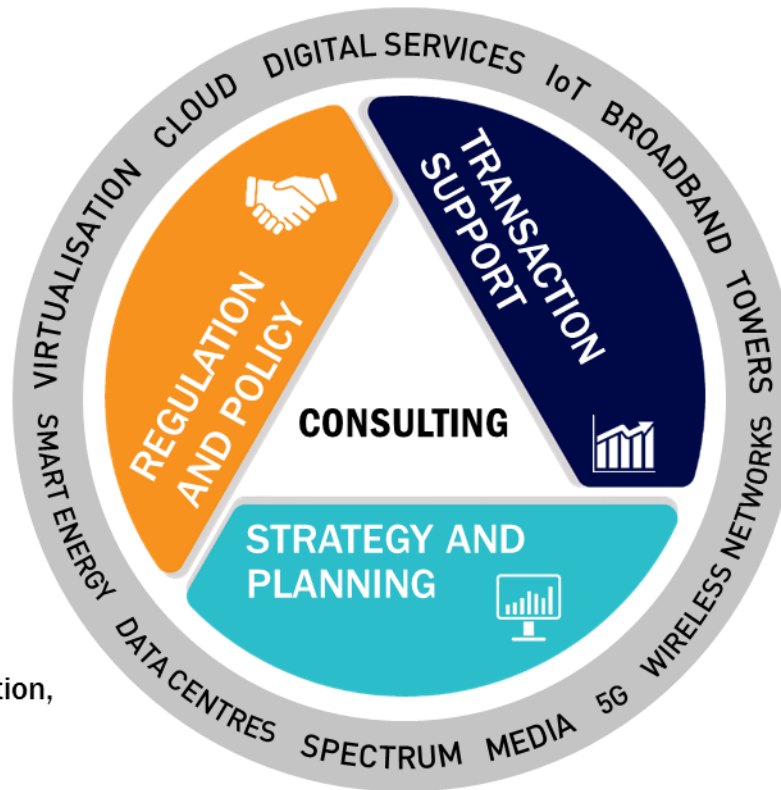
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