

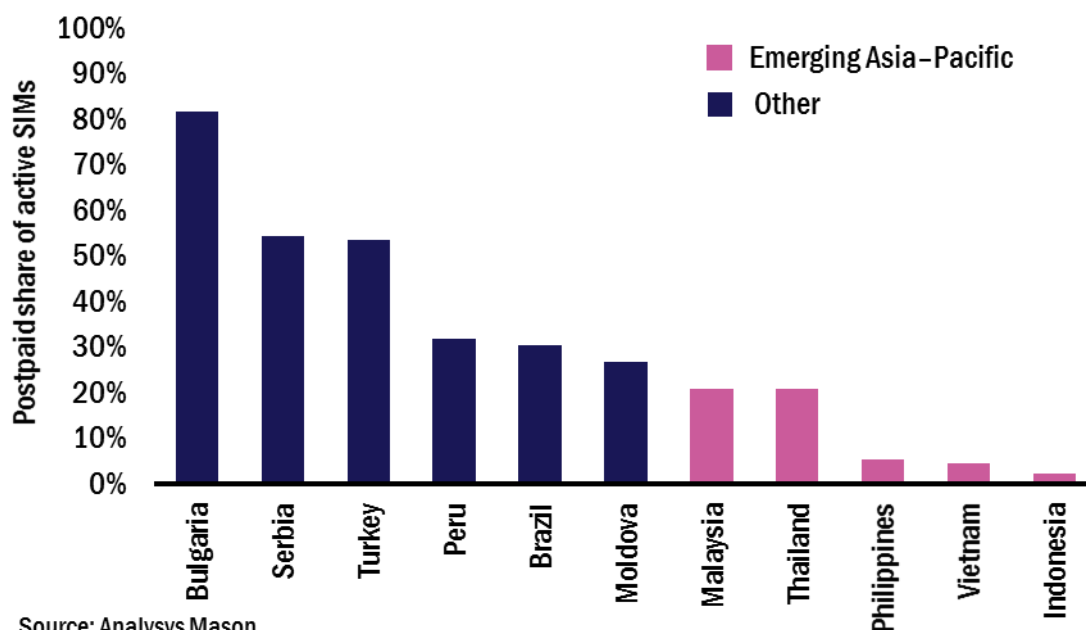
Mobile network operators in emerging Asia-Pacific must do more to drive postpaid penetration

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Stephen Wilson

Emerging Asia-Pacific mobile network operators (MNOs) are underachieving in migrating customers to postpaid tariffs compared to those in other emerging markets (Figure 1). Operators have much to gain from successfully migrating customers to postpaid offers. These are much more convenient for consumers, which is likely to result in increased ARPU (postpaid handset ARPU was 4.5 times higher than prepaid ones across emerging Asia-Pacific in 2016) and reduced churn (postpaid churn was 2–3 times lower than prepaid churn across emerging Asia-Pacific as of 2017), among other key measures. This comment provides an overview of the strategies that emerging Asia-Pacific MNOs can adopt to accelerate postpaid subscriber growth, as discussed in more detail in our recent report.¹

Figure 1: Postpaid share of active SIMs, selected emerging markets, 2016



Source: Analysys Mason

Emerging Asia-Pacific MNOs must overcome challenges in assessing customers' creditworthiness

MNOs can easily assess customers' risk of defaulting on postpaid plans in most developed markets, because the population coverage of private credit bureaus is high. However, this is not the case in emerging Asia-Pacific and MNOs risk increasing bad debt if they are too aggressive in offering postpaid packages. This is becoming more of a concern in Thailand and has led to more stringent eligibility requirements for postpaid offers in the Philippines. Emerging Asia-Pacific MNOs often make subscribers pay an up-front deposit (typically equal to

¹ For further details, see Analysys Mason's Report [Driving postpaid migration in emerging Asia-Pacific: strategies for success](#).

twice the basic cost of the postpaid plan) to overcome this limited creditworthiness information, but such fees may discourage subscribers from taking up postpaid packages.

Fresh approaches may help resolve the uncertainty generated by limited credit history information. Data analytics start-ups, such as Cignifi, can generate credit histories based on a customer's mobile usage. This could help identify customers who have predictable usage habits that may be suited to a postpaid subscription. Furthermore, more-creditworthy customers could be offered postpaid plans accompanied by subsidised handsets once they have been identified. Subsidised handsets have been an important driver of postpaid subscriptions in some emerging markets with high postpaid shares, such as Serbia. Data analytics start-ups could also assist MNOs by sharing their information with credit bureaus, as Cignifi has done with Equifax in Latin America. This kind of approach is in its infancy, but the area is worth investigating as a way to drive postpaid penetration. MNOs could also drive the creation of credit bureaus directly. Telkom Indonesia's data centre arm holds a 10% stake in the first Indonesian private credit bureau, Pefindo Bureau Kredit, which soft launched operations in December 2016.

Improving the appeal of postpaid offers compared to prepaid ones is key to increasing postpaid share

Emerging Asia-Pacific MNOs often have unrealistic expectations about how much extra postpaid subscribers are willing to pay compared to prepaid offers. Postpaid ARPU is around 2.5–4 times prepaid ARPU in emerging markets where postpaid penetration is relatively high, such as Bulgaria, Serbia and Turkey. However, postpaid ARPU is just over ten times prepaid ARPU in the Philippines and eight times it in Indonesia. This is compounded by the growing gap between prepaid and postpaid ARPUs in most EMAP markets, which reflects intense price competition in the prepaid segment. MNOs risk levels of postpaid penetration stagnating if they concentrate their efforts on prepaid price competition.

MNOs could boost their postpaid propositions by offering attractive, entry-level postpaid tariffs. Malaysian MVNO redONE markets itself as offering the cheapest entry-level postpaid plan in Malaysia (priced at MYR8 or USD1.9) and has grown its base to close to 1 million subscribers as a result. Using MVNOs or sub-brands can reduce MNOs' risk of cannibalising their existing high-value postpaid subscribers.

Removing features from prepaid offers can also improve the attractiveness of postpaid offers relative to these. Brazilian MNOs adopted this strategy in 2015 by removing access to unlimited throttled-speed data for prepaid top-ups. This approach has significantly boosted postpaid share, coupled with the development of tariffs that enable subscribers to buy an extra data allowance once their postpaid quotas are exhausted, thus reducing uncertainty around overage charges. Postpaid share grew from 24.2% at the end of 4Q 2014 to 33.1% at the end of 1Q 2017, although this increase was also driven by falling mobile termination rates, which rendered using multiple prepaid SIMs less attractive. Removing unlimited throttled-speed data for prepaid packages was also tried in Thailand in 2015, but such moves were not followed by all MNOs and therefore the packages were quickly reintroduced for competitive reasons.

Tariff and digitalisation innovation can boost postpaid penetration

Developing innovative tariffs is another way to increase the number of postpaid subscribers. Thai MNO True has promoted fixed-mobile bundles and has consistently outperformed its competitors in postpaid net additions in recent quarters. Emerging Asia-Pacific MNOs also must innovate to alleviate customer concerns around overage charges. It is already commonplace for emerging Asia-Pacific MNOs to offer additional data top-ups once a user exceeds their allowance. However, results from our 2016 *Connected Consumer Survey* show that

Malaysian subscribers that regularly exceed their data allowance award their operators low Net Promotor Scores. This suggests that Malaysian MNOs can do more in this area, although the prices of additional data top-ups compared to the prices of overall tariffs are no higher in Malaysia than in many other emerging markets with higher levels of postpaid penetration. One way to resolve concerns around overage fees is to offer tariffs with unlimited data quotas (segmented by speed, for example). This strategy has been adopted by DTAC in Thailand with its Go No Limit tariff, which helped it secure the highest share of postpaid net additions in the country in 1Q 2017.

Emerging Asia-Pacific MNOs are showing strong interest in providing a digital experience for their customers – through self-service apps and online offers, for example. This ties into consumers' desires to benefit from the greater convenience provided by postpaid offers. However, such apps and online offers alone are unlikely to differentiate MNOs from their competitors in technologically-savvy, youth oriented-markets, such as Malaysia. It is therefore perhaps most accurate to describe such digitalisation efforts as an essential but insufficient condition of driving postpaid subscriber growth.