Pricing in a high-inflation environment: operators can learn from their counterparts in Turkey

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High inflation, particularly in high-income countries, poses a threat to telecoms operators' margins and their ability to retain customers and keep them satisfied.

High single-digit inflation is an unfamiliar situation in many of the countries that are currently affected, so operators may not be well-prepared to deal with it.

Operators should use the recent experience of their counterparts in Turkey as a guide for how to operate in a climate of increased inflation. They should explore using more-for-more pricing, front book price increases and inflation-proof promotional pricing to manage rising prices.

Inflation jeopardises operators' capacity to maintain margins and retain their customers

Increasing inflation presents problems for operators for three main reasons.

- It risks eroding margins, particularly if the national producer price index (PPI) rises more quickly than the consumer price index (CPI). This has been the case in the UK, for example, since 2Q 2021.
- There is a risk of lower customer satisfaction, higher customer churn and reduced scope for upselling additional services if operators increase retail prices in response to inflation.
- Inflation increases consumers' price sensitivity and risks ARPU erosion as consumers downgrade to lower-value services, such as lower-volume mobile data plans. Increased price sensitivity due to inflation may result in customers cutting back on discretionary items such as video or gaming services.[1]

Turkish operators have succeeded in keeping mobile prices in line with inflation, even when it was above 10%

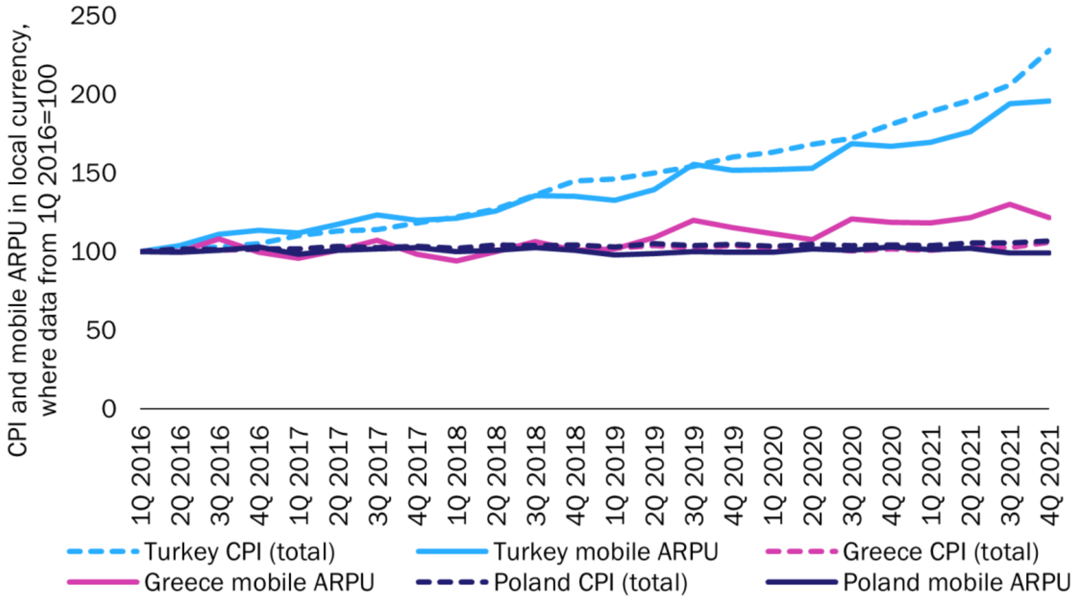
High inflation has been a market feature in Turkey for some years. Annualised CPI growth (total goods) in Turkey was 13.7%, on average, between 2016 and 2021, with peaks of 16.2% in 2018 and 19.6% in 2021. In contrast, annualised CPI growth (total goods) in OECD countries was 2.3%, on average, between 2016 and 2021, but jumped to 7.8% in February 2022.

We can use mobile ARPU as a proxy for mobile pricing levels. Figure 1 shows an index of mobile ARPU and CPI in Turkey and comparable countries between 2016 and 2021, and we can see that Turkish operators

1 Lloyds Banking Group (2022), *Over a million subscriptions stopped by customers as households feel the squeeze*. Available at: https://www.lloydsbankinggroup.com/media/press-releases/2022/lloyds-bank/over-a-million-subscriptions-stopped-by-customers-as-households-feel-the-squeeze.html.

generally succeeded in keeping their prices in line with inflation for most of this period, except from 2021 onwards when inflation surpassed 16%.[2]

Figure 1: Total market mobile ARPU and CPI (relative to the data from 1Q 2016), Turkey and comparable countries, 1Q 2016–4Q 2021



Source: Analysys Mason

Price increases for new customers, more-for-more pricing and inflation-proof promotional offers have helped to increase ARPU

Turkish operators have taken the following measures to keep retail mobile prices in line with inflation.

- **Price hikes to front book retail prices (that is, prices charged to new customers) across the market**. Operators have taken it in turns to increase prices for new customers. For example, Turkcell increased its mobile retail prices by approximately 15% in August and September 2018; Türk Telekom and Vodafone Türkiye then increased their mobile retail prices by 15–20% in September 2018. Operators have chosen not to increase back book prices (that is, prices for existing customers), but front book price rises have gradually been passed onto existing customers because these customers ultimately have to recontract at higher prices when their old contracts expire.

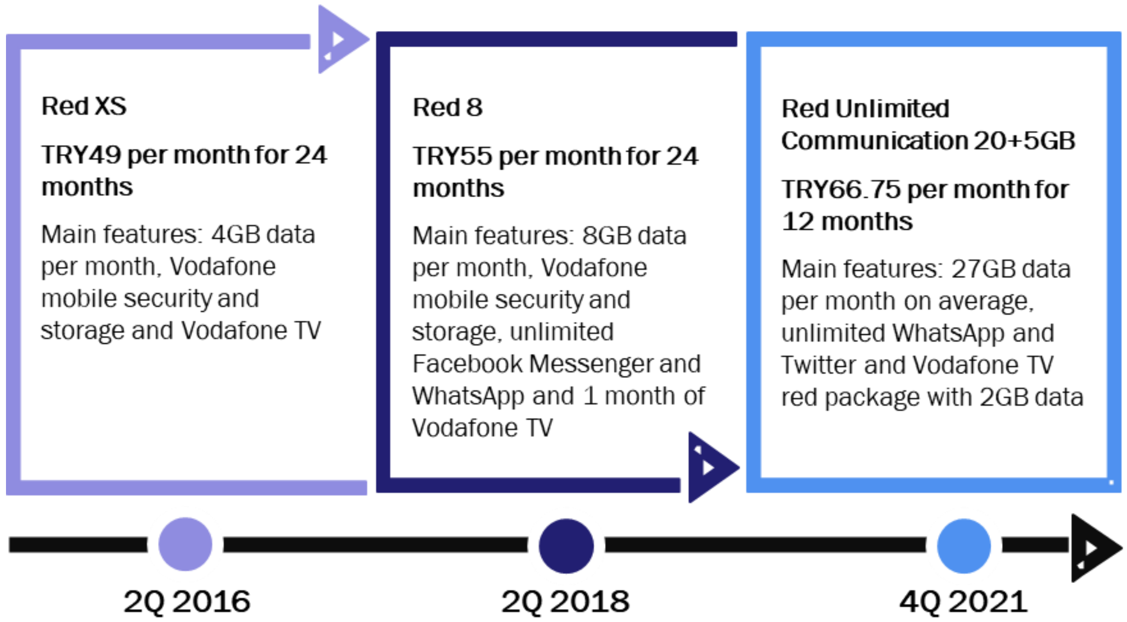
- **More-for-more pricing**. Vodafone Türkiye, for example, has consistently enhanced the elements of its entry-level postpaid mobile plans while increasing prices (see Figure 2). More-for-more pricing has enabled Turkish operators to raise prices without triggering a fall in ARPU or customer migration from postpaid to prepaid plans.

- **Promotional prices that do not provide a discount over older tariffs over the entire course of the contract.** Turkish operators have been marketing plans that come with deep discounts at the start of the contract. This practice has been particularly prevalent since 2020. These offers suggest value for money, but

[2] For more information on the Turkish telecoms market, see Analysys Mason's *Turkey telecoms market report*.

they are priced such that the average weighted monthly price across the entire contract is actually higher than the monthly price of older tariffs.

Figure 2: Evolution of entry-level postpaid mobile tariffs ('Red' range) from Vodafone Türkiye, 2016–2021



Source: Analysys Mason

Increasing prices with inflation is easier in uncompetitive markets, but operators everywhere will need to respond to cost inflation

Turkish operators' success in combatting inflation in the low-to-mid teens should give other operators some confidence in the face of the IMF's 2022 inflation forecasts of 5.7% in advanced economies and 8.7% in emerging economies.[3]

Operators can learn from their Turkish counterparts and should review the inflationary pricing levers that are available to them and reassess their current approaches.

- Using more-for-more pricing to combat inflationary pressures is likely to be the best option because it can also improve customer satisfaction by offering customers more.

- Inflation-proofed promotional pricing is another option that can be explored.[4]

- Increasing front book pricing is effective and may be more attractive than increasing back book pricing. Increasing back book pricing is an approach favoured by operators in the UK; they make yearly price adjustments to existing packages based on the CPI. Unlike front book pricing increases, we do not have evidence that back book pricing increases work well overall amid inflation, and we also believe that there is a risk that mid-contract price increases are seen by customers as unfair and arbitrary.

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3 International Monetary Fund (2022), *World Economic Outlook*. Available at: https://www.imf.org/en/Publications/WEO.

4 For more information on promotional pricing and other trends, see Analysys Mason's *Mobile handset data pricing benchmark*.

Of course, operators in less competitive markets or those with a strong competitive advantage (such as a superior networks) or less price-sensitive customers will be in a better position to adopt these measures than others. However, inflation affects all market participants, so price rises are likely to be accepted across the market as a whole once initiated by players with the strongest competitive positions. Under normal circumstances, challengers or smaller players may choose to sacrifice margin to undercut bigger players on price. However, this is a risky move when input costs are rising due to economy-wide inflation and when there is little certainty as to when this inflation will temper.

The Turkish example shows that operators have more than one option to consider when responding to inflation. A key lesson is that they need not fall back solely on existing methods such as back book price increases.