

## Creating Killer Applications or Killer Markets, the Road to ARPU Increase.

by Dick Blom, President, and Marcelo Fernandes, Marketing Manager – CMG Latin America

Growth of mobile telephony will depend upon the ability of mobile operators to analyse and understand their clients' needs and offer services they want at an affordable price. The growth of the industry depends more upon the availability of good services and applications than upon new handsets and fancier technology. Voice service will not bring much growth, but new applications, such as SMS and MMS, and making a full range of services available to pre-paid customers as well, will.



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While speaking recently with a US analyst about how 2.5G networks, Short Message and Multimedia Messaging had evolved, the analyst asked what we were currently doing. His concern, of course, was that in the technology-focused Latin American market a number of different technologies have been put to use within a short period of time.

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The question then arose – what do the clients think of this? Do they really care? Can they tell the difference between the different features and applications that these technologies offer? Are there killer applications, or should we directly address the benefits of each service? How can we make clients aware of the value of these services, in a way that is

tangible and leads them to incorporating them into their day-to-day activities?

Operators search for answers to these questions, since competition is making voice services a commodity, and they must differentiate their products and develop services more in line with client desires in order to increase their average revenue per user or ARPU.

### Benefits of Technology

Making life easier for clients should be the big differential for mobile data services. Today's technology-focused market still sells products based on technical distinctions, such as the different functions of handsets, but now this technology must be presented in such a way that it functions as an integral part of the client's daily life and serves his basic needs.

Mobile phones are increasingly used as

tools to interact with other systems – be they for trade or entertainment. Purchasing a ticket to go to the movies without standing in line, or finding out where there is a restaurant serving your favourite food, are just some of the examples of how mobile data technology can help add value.

This creates a need for mobile devices with more user-friendly interfaces. New applications such as these drive growth; as a result of them, the current market of 85 million persons could reach 110 million or more within the next few years.

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## Subscribers vs. Consumers

To get closer to clients we must understand their habits, learn from them, create value, bill and reward them in a flexible and appropriate way. This is how to develop client loyalty and satisfaction, especially within the world of mobile data services.

Now, more than ever, educating clients and earning their loyalty is a challenge for marketing departments.

Operators tend to picture their typical client and their needs as they did years ago when they were first building market share.

Today's subscriber, the mobile consumer, is quite different from the traditional user of yesterday and changing the operator's perception is a major challenge.

Understanding this new consumer's pattern of use and the reasons why he/she may use different services is of vital importance to designing suitable product offerings, in a market where per capita disposable income is typically much smaller than in European countries.

In addition, there is competition with other consumer goods that may replace these services, and therefore "steal" potential revenue.

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Today there are market intelligence tools for the mobile data universe that can be used to provide statistics, interact with operator databases and identify the consumption profile for the different services. This allows us to offer clients innovative experiences, and not necessarily just new products or very advanced technologies.

In addition, there is the possibility of charging for the application, independent of the actual size of the application, as opposed to charging only for network use, where all we can charge for is minutes or bytes.

This makes it easier to respect one of the

fundamental marketing relationships: perceived value times cost of service. When clients understand the services – what they are worth to them, and exactly what the services costs, they are more likely to incorporate these services into their lives.

In truth, it really doesn't matter what a service is worth, but how much people think it is worth to them. Respecting this basic relationship is fundamental to making clients use a service.

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A better understanding of the true desires and needs of mobile consumers will enable product, pricing, promotion and distribution policies to be restructured so that customers can understand and adapt to the benefits of this technology and effectively make use of the services available.

## Market Numbers

Market research indicates that the mobile consumer base will increase from the current level of 100 million people to 900 million by 2005. Consumers currently spend an estimated US\$20 billion; spending is expected to reach US\$55 billion in 2005.

According to a 2001 survey, the number of mobile data users in Latin America will reach 96 million in 2006, generating annual business on the order of US\$6 billion.

## The Role of Pre-paid Customers

The pre-paid public is extremely important if we really want to reach the mass market. Although this segment currently generates less revenue, it accounts for 75% of the current mobile phone base.

This is an impressive potential consumer base. As an example, Pre-paid customers typically send three times as many SMS (short message service) messages than post-paid subscribers.

Currently 90% of all new mobile users

choose pre-paid services. It is estimated that within a few years the pre-paid cell phone base will be 85% of the total number – a market of over 95 million individuals. For some operators these percentages are already a reality.

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This puts severe pressure on revenues and affects the mobile operator profitability since the ARPUs (average revenue per user) for pre-paid users tends to be low.

Studies show that in "evolving economies", such as those in Asia or Latin America, there is a strong correlation between GDP per capita and ARPU. Studies on expected increases in ARPU, though, have often neglected potential increases in per capita income and, consequently, the potential for selling new services to the pre-paid customers.

A small increase in expenditure by this rather large public would generate a substantial increase in revenue. Since pre-paid accounts tend to cost operators less, the bottom line impact might well be greater than that from a similar increase in post-paid revenue.

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In addition to the traditional concerns over promoting services, operators must invest in tools to enable handling the pre-paid public differently than they have been until now. They need to be able to offer pre-paid users the same range of data services available to the post-paid customers and in effect bring these services to the masses.

We do know, however, that although this market is large, there are budgetary and educational restrictions that must be overcome before these subscribers will become substantial mobile consumers.

To overcome these problems, there are tools that can work with pre-paid