

# Unravelling what makes a mobile customer loyal

White paper 1

*mobile*<sup>SQUARED</sup>

A mobile<sup>SQUARED</sup> report

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# INTRODUCTION

This is the first in a series of three white papers released by Tecnotree based on primary research conducted during February 2013.

The first piece of research was conducted by On Device Research and surveyed 2,700 mobile consumers across nine markets, 300 people in each market. The countries included in the research are: Germany, Spain, the UK, Argentina, Brazil Mexico, Kenya, Nigeria and South Africa.

Second primary piece of research was conducted by mobile<sup>SQUARED</sup>, which involved surveying mobile operators around the world. Forty two operators took part in the survey. While their answers have been anonymised, the mobile operators that took part include: WIND, Vodafone, Deutsche Telekom, TPO, Telefonica, Econet, Tele2, Telecom Italia, AT&T, T-Mobile, O2, TeliaSonera, Beeline, Sonae, Wataniya, Grameenphone, SingTel, Turkcell, Telekom Austria, HK CSL.

This first white paper looks at what makes a mobile customer loyal to their mobile operator, and what will encourage churn. The white paper approaches these topics from a mobile operator perspective, but also, from a mobile consumer perspective. Are these views aligned or are they poles apart? It also provides a snapshot into the broader research that will be released in subsequent white papers.

The second white paper will provide a deep exploration of the consumer research into loyalty, with in-depth analysis on a market-by-market approach, covering content usage and consumption, non-communication services spend, and the consumer appeal of 4G high-speed connectivity.

Lastly, the third white paper will take a deep dive into how mobile operators can create a compelling customer bundle that will encourage increased spend, and longevity from a loyalty perspective. It will follow on from similar Tecnotree research conducted in 2012, and will explore how the mobile operator mindset has changed during that period, and how the advent (or imminent advent) of LTE has had on their go-to-market strategy.

The second white paper will be released March/April with the third white paper published April/May.

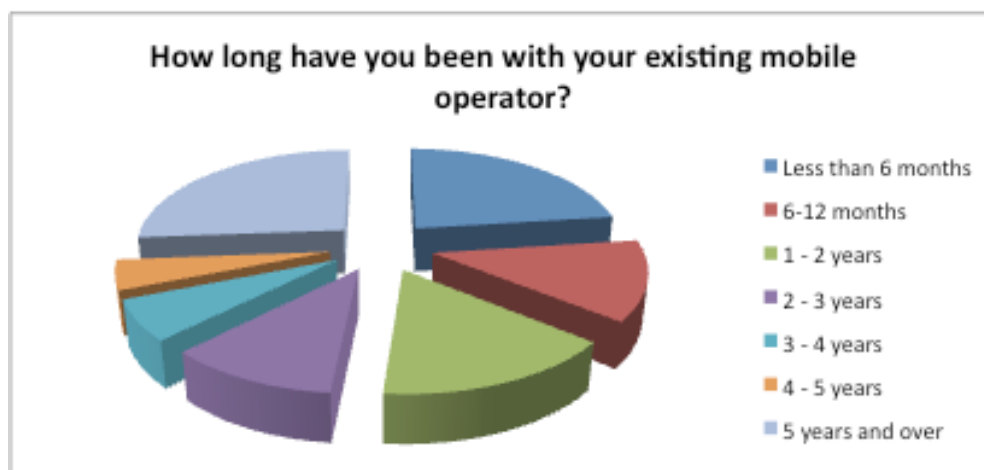
# WHAT MAKES MOBILE CONSUMERS LOYAL?

Almost 50% of mobile consumer respondents have been with their existing mobile operator for over 2 years. In fact, 26% of respondents claim to have been with their mobile operator for over five years. However, 36% of respondents have changed mobile operator in the last 12 months — 23% of respondents have changed mobile operator in the last six months.

A national breakdown reveals that Brazil, Nigeria and the UK had the highest churn levels in the last six months. The country with the lowest churn over the last 6 months was Kenya, with just 10.67% moving operator in that period.

If we assume a loyal mobile customer stays with their provider for more than two years, then Kenya has the most loyal mobile customers with a little over 50.33% of respondents staying with their mobile operator for over two years. This was followed by Argentina (46%) and Germany (42%). The countries with the lowest customer longevity were Brazil (20%), the UK (32%) and Mexico (35%).

The logic behind identifying two years for a loyal mobile customer, is based on the fact in the majority of developed mobile markets, prepaid contracts are now between 18-24 months. Therefore, by using two years as a minimum term for loyalty, it reveals that a consumer will have renewed their contract with that mobile operator at least once.



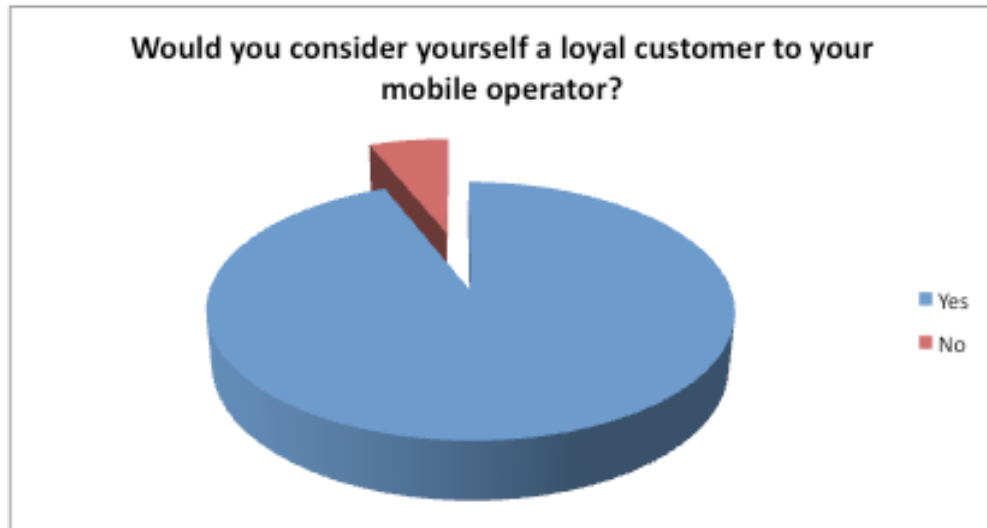
Source: Tecnotree research

## Are you a loyal mobile customer?

Of total respondents, 94% believe they are a loyal customer to their mobile operator. Across all of the regions included in the research, mobile consumers in Nigeria (97%), South Africa (96.7%) and the UK (96.3%), claim to be the most loyal mobile

customers. The Germans are the least loyal, with 89% stating they are loyal to their mobile operator.

Interestingly, if we compare perceived consumer loyalty with the last question, while churn levels over the last 12 months is reasonably high across each territory, the fact consumers believe themselves to be loyal indicates that once they have moved mobile operators, they will remain with that provider for a reasonable length of time.



Source: Tecnotree research

Although the last question directly asked consumers if they considered themselves loyal to their mobile provider, interestingly, when presented with a series of options to identify their loyalty to their service provider, the levels of loyalty actually increased. Previously, 94% of consumer respondents said they were loyal, but when presented with an option of “I do not consider myself a loyal customer”, only 4% responded. While this is only a marginal difference, it does imply that actual loyalty levels are higher than perceived loyalty levels, which is very encouraging for mobile operators.

## So what drives loyalty among mobile customers?

The most popular response across all consumers was better tariffs, attracting 24% of consumers. This was followed by device upgrades on 21%. Clearly consumers are also attracted to the notion of bundled services, with 15% stating this is a key reason driving mobile operator loyalty. However, the appeal of more content was not a compelling proposition associated with loyalty, with only 7% of consumers saying more content ensured their loyalty.

Eighteen percent of respondents claimed “all of the above”, meaning device upgrades, better tariffs, more content and a bundled service offering, encouraged their loyalty.



Source: Tecnotree research

## What creates a loyal mobile customer, according to mobile operators

But is this view shared by the mobile operators? The research of mobile operators around the world revealed that they believe that a variety of reasons are responsible for creating customer loyalty. The most popular response was “all of the above”, which attracted 55% and covered device, better tariffs and more content. In fact, not one operator believes that the mobile device or content as standalone options, generate customer loyalty. However, 38% of mobile operators believe that a bundled service offering does create customer loyalty.



Source: Tecnotree research

There is a disconnect between what creates loyalty among mobile customers and the views of the mobile operator. The mobile operator view highlights that customers are attracted to multiple components, consisting of the device, tariff, and content. While this is applicable to a quarter of the consumer respondents, over 50% of consumers identified a single component as the primary factor that made them loyal to their mobile operator. Similarly, 38% of operators cited a bundled service offering as key to driving customer loyalty, whereas only 15% stated this was a key element.

This reveals that mobile operators have a broader view of what drives loyalty among their mobile customers, versus the actual view of the mobile customer, which is based on one singular aspect of their mobile service.

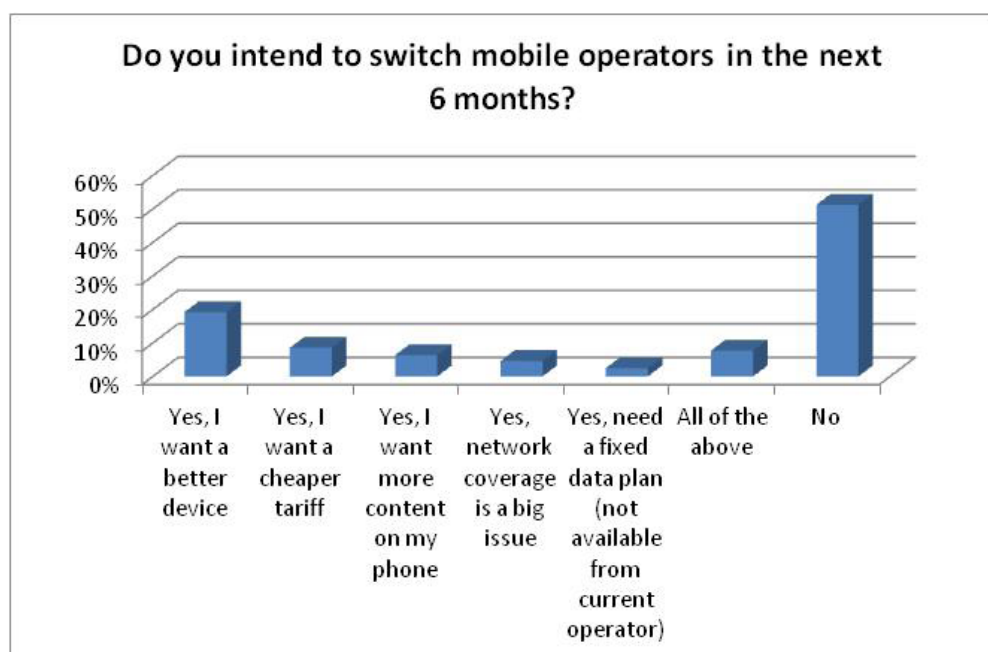
## What will drive churn?

Just over 50% of consumer respondents do not intend to churn in the next six months, which is not that surprising given that an earlier question revealed that 23% of respondents claim to have changed their mobile operator in the last six months.

Of the 49% that claim they will leave their existing operator, 19% cited a better device as the primary incentive, followed by a cheaper tariff (9%), wanting more content (6%) and network coverage (5%). In fact, only 8% of respondents claimed “all of the above” was their driver for churning. This implies that generally, mobile customers are largely satisfied with their existing mobile operator, but are moving because another operator can offer something different, whether device or tariff or content.

Regardless, as with the previous question based on what drives loyalty, this highlights that in the majority of cases, customers will consider leaving their existing provider for one reason. The good news for mobile operators is that this will no doubt be addressable for the majority of cases, provided the mobile customer presents them with the opportunity to do so.

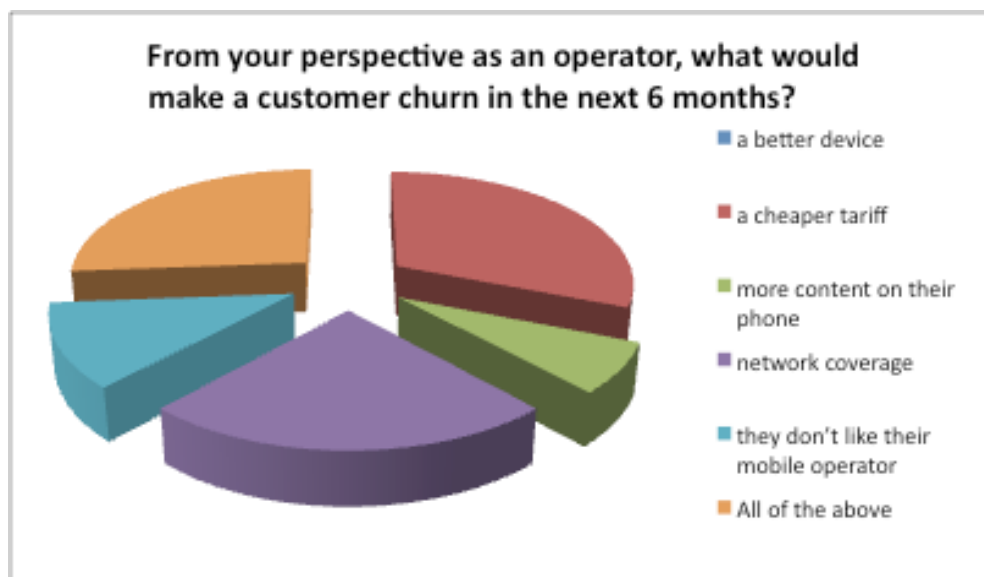
A breakdown by region reveals that device is the principal reason for churn in every market, apart from Brazil where network coverage is the primary driver for churn.



## What will drive churn, the operator view

As a standalone option that would encourage a customer to churn, 31% of mobile operators believe a cheaper tariff is the most powerful component. This was followed by 24% of mobile operators claiming network coverage would encourage churn. Not one mobile operator stated device upgrade as a means of preventing churn. Similarly, only 7% of mobile operators believe more content would drive churn. Interestingly, 12% of mobile operators believed a customer would churn because they don't like their existing mobile operator.

When all of these elements were combined, a little over 26% of mobile operators believed that "all of the above" would make a customer churn.



Source: Tecnotree research

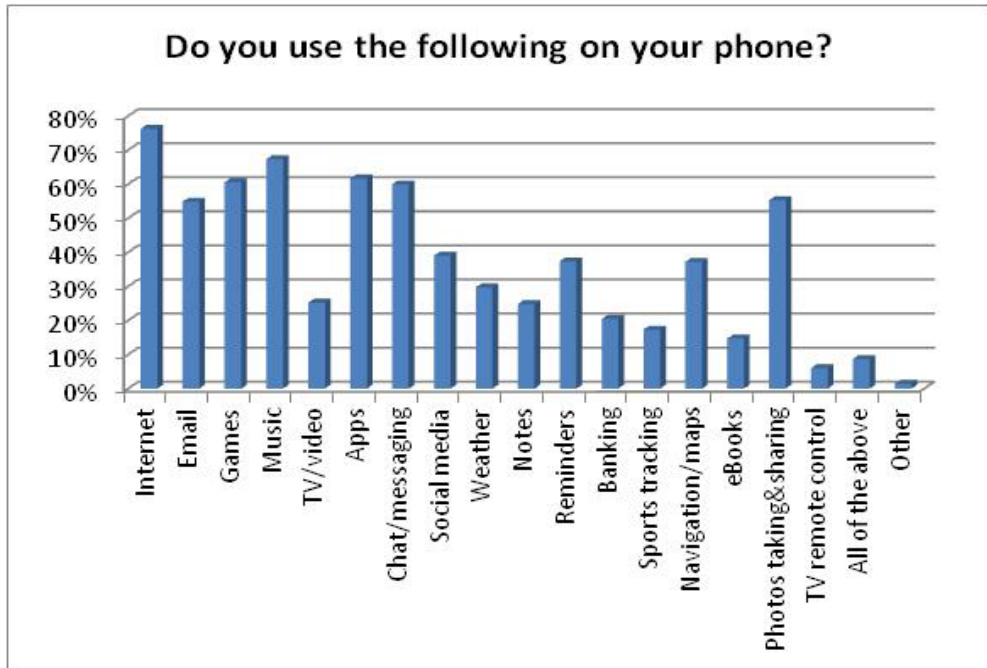
Intriguingly, mobile operators underestimate the appeal of a new device to encourage churn, as not one operator cited "a better device" as a driver of churn, versus the consumer response of 19%. Conversely, mobile operators clearly place more importance on the need for "a better tariff" than mobile customers, as a third of operators stated a better tariff as a driver of churn compared to just 9% of consumers.

## Is content King?

There were no surprises in this part of the research. Almost 80% of respondents said that they use the mobile internet, followed by music (67%) and apps (62%). If you then include games, email, chat/messaging and photos, then these were the most popular seven services for all markets surveyed.

What is most revealing is the fact that the next-generation of services, like TV and video, the services that are predicted to dominate in an LTE world, have limited appeal today.

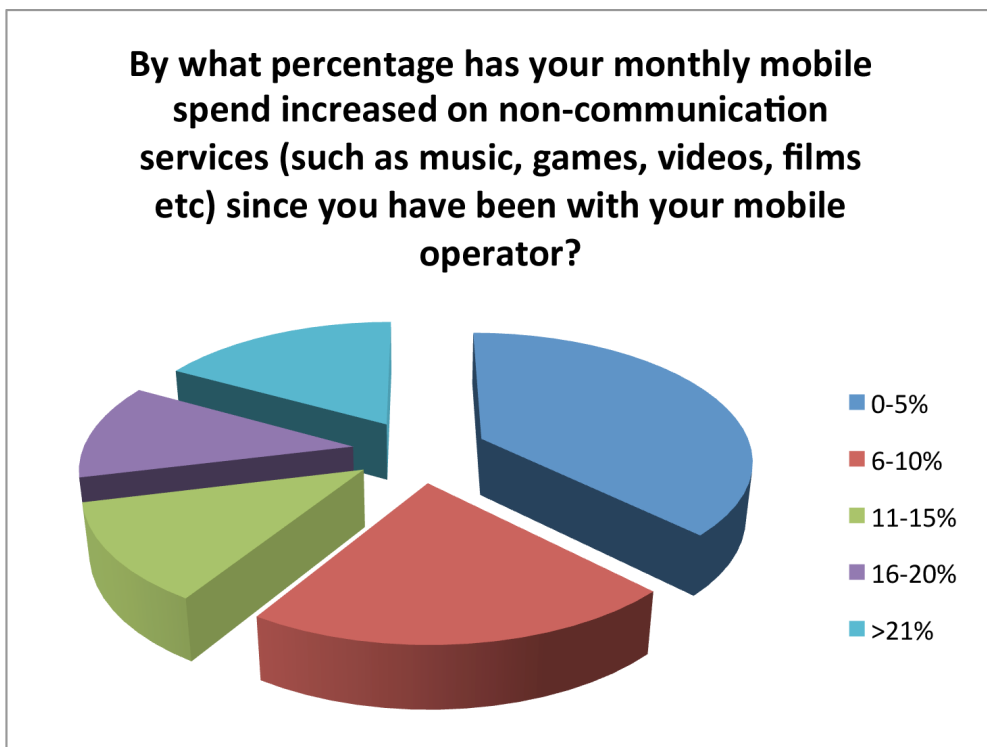




Source: Tecnotree research

Mobile customers are increasingly spending more on their mobile phone on non-communication services. While 37% of respondents said that they were only spending between 0%-5% on non-communication services, almost two-thirds of respondents said that their spend had increased by between 6% and above since they had been with their existing mobile service provider.

Almost one-quarter of respondents said that their non-communication services spend had increased by between 11%-20%, while an additional 17% said that their spend had increased by more than 21%.



Source: Tecnotree research

This is another encouraging sign for mobile operators that loyalty encourages increasing spend in non-communication services. For example, if average monthly spend is \$30, then average monthly spend on non-communication services represents an uplift of 6% this equates to \$1.8, or \$21.6 per year. If that uplift in non-communication services spend is 21%, that equates to \$6.3 per month and \$75.6 per year. Apply these numbers to a mobile operator database of 5 million, and it has an impressive impact on a mobile operator's revenues.

By taking the mid-point of the content spend range and applying this to a mobile operator subscriber base of 5 million, it means the mobile operator stands to generate a monthly revenue of US\$12.2 million and US\$146.6 million per annum.

## Example of non-communication service spend uplift

Content spend*	5 million customer base	Monthly non-communication services spend (US\$)	Annual non-communication services spend (US\$)
0-5%	1,874,074	1,171,296	14,055,555.56
6-10%	1,070,370	2,006,944	24,083,333.33
11-15%	612,963	1,992,130	23,905,555.56
16-20%	598,148	2,616,898	31,402,777.78
>21%	844,444	4,433,333	53,200,000.00
	TOTAL	12,220,602	146,647,222
*Based on mid-point			

Source: Tecnotree research

## Is content King for mobile operators?

Based on today's mobile environment — which is dominated by 3G and WiFi connectivity — according to the mobile operator respondents, the most popular consumer service in three-to-five year's time will be mobile payments, with almost 60% of mobile operators selecting the service.

Machine-to-machine services will be the second most popular service for consumers in the next three-to-five years. In fact, almost 41% of operator respondents opted for machine-to-machine. The third most popular service was cloud storage, with 36% of operators choosing it.

The results demonstrate the mobile operators' view of how their customers will use their mobile phones in the coming years. For instance, while on-demand video was the most popular rich-media content-based service, attracting 33% of operator responses, other mainstream services used today, such as games and music, generated a surprisingly low 24% and 14% respectively.



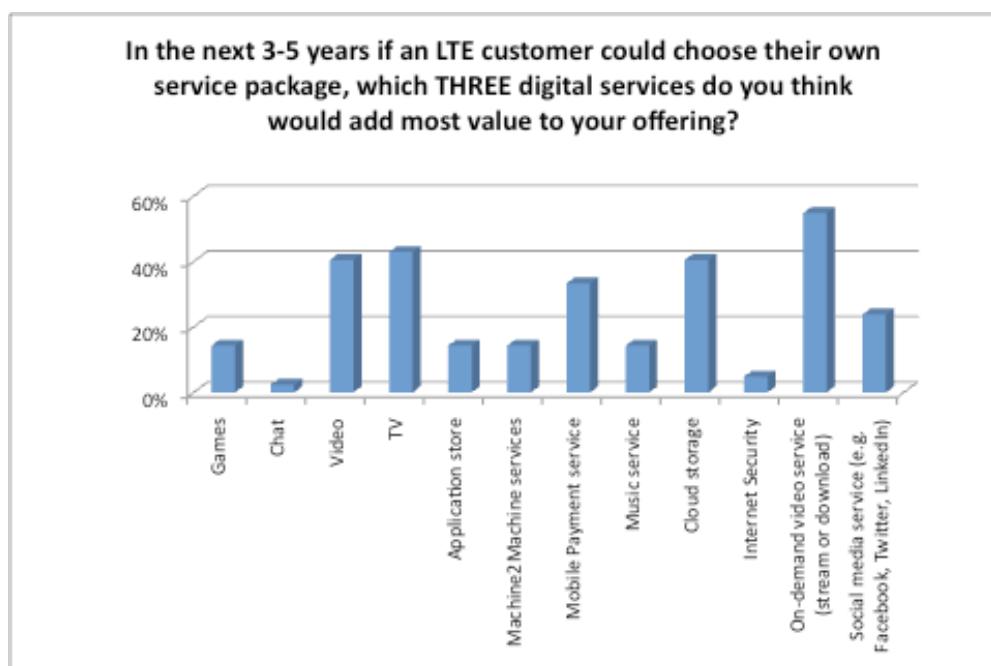
Source: Tecnotree research

## What impact will LTE have?

When mobile operators were asked to select the three digital services that would add most value to their customer offering based on an LTE customer, their responses were dominated by TV and video.

The most popular response was on-demand video, of which 55% of mobile operators believed this service would add most value to a subscriber's service package. This was followed by TV and video, with 43% and 41% of operators respectively.

Of the services that mobile operators believed to be the most appealing in a non-LTE environment — mobile payments, machine-to-machine and cloud storage — mobile storage was the fourth most popular mobile operator response for LTE customers, attracting 40% of responses, while mobile payment services received 33%.



Source: Tecnotree research

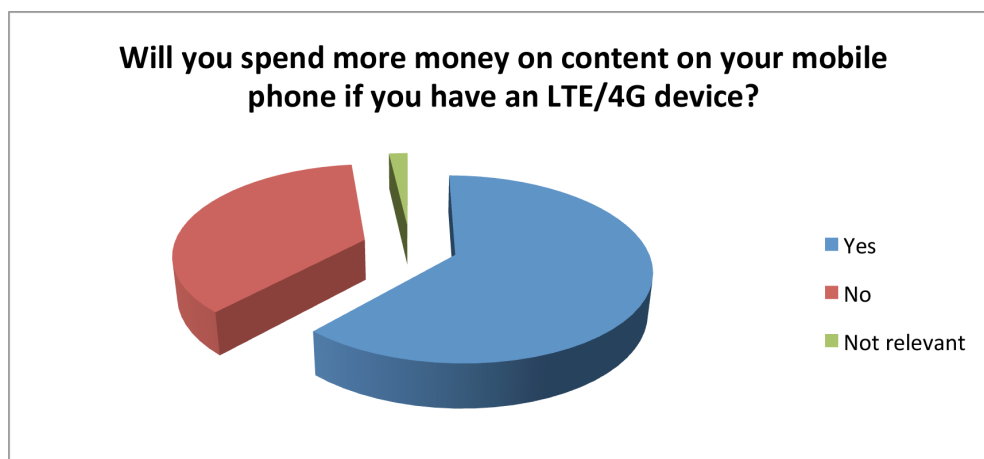
What is interesting is that over the next three-to-five years “pre-LTE”, the mobile operator stance toward the importance of digital services for consumers centres on the mobile as a utility, such as payments, M2M and storage. Whereas in an LTE world in three-to-five years, video and TV are predicted to dominate. This is not that surprising given video representing 70% of online traffic. But the research represents quite a change of mindset among the mobile operator community, from utility to entertainment.

## The impact of LTE on consumers

The fact that 62% of mobile consumer respondents claim that they will increase their spend on non-communication services when they own an LTE device, is a compelling reason for all mobile operators to deploy LTE sooner rather than later.

Significantly, this figure shows a high degree of consistency with the previous consumer question on existing content spend. Clearly, two-thirds of a mobile operator’s subscriber base are already increasing their spend on non-communication services, and LTE will act as an accelerant of spend for these subscribers.

The appeal of LTE was highest in South Africa and the UK, but lowest in Germany and Kenya.

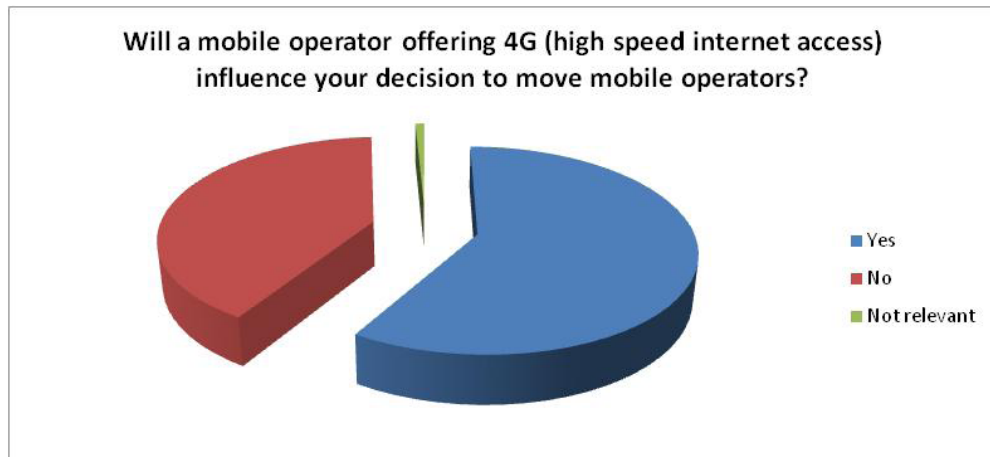


Source: Tecnotree research

As we’ve seen in a previous questions, network coverage is not a major concern for the consumer respondents. However, the appeal of using a vastly superior network is a very tempting prospect for our mobile respondents, with 59% claiming they would churn if a rival mobile operator was offering 4G and their existing mobile operator was not.

Similarly, the consistency of those mobile subscribers willing to spend on non-communication services, is also reflected in those mobile customers that would be influenced to move operator because of network performance. As we’ve seen already, around two-thirds of mobile customers will increase their spend once on 4G, and 59% of respondents said they would move to a 4G mobile network provider.

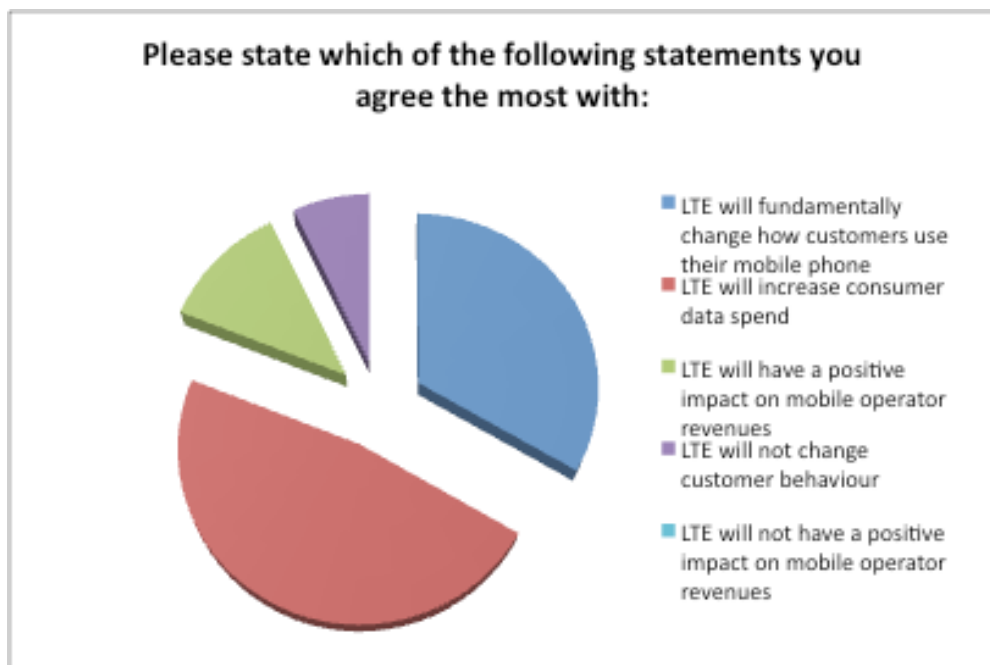
It is therefore imperative that a mobile operator upgrades its network to 4G as soon as possible. While mobile consumers believe they are loyal to their existing mobile operator, the biggest factor encouraging churn will be the appeal of 4G.



Source: Tecnotree research

## Mobile operators see the positive in LTE

Almost 48% of mobile operators believe that LTE will increase consumer data spend. This was followed by 33% of mobile operators expecting LTE to fundamentally change how consumers will use their mobile phone. While just 12% of mobile operators expect LTE to have a positive impact on mobile operator revenues, overall, over 93% of operator respondents expect LTE to have a positive impact. That leaves just 7% of mobile operators that do not expect LTE to change consumer behaviour. None of the mobile operator respondents expect LTE to have a negative impact on their revenues.



Source: Tecnotree research

# Conclusion

The research highlights there is a disconnect between what drives loyalty among mobile customers, and what mobile operators believe drives loyalty. Similarly, this disconnect is also reflected in what drives churn. For both loyalty and churn, generally speaking, consumers will focus on one aspect of their mobile service, whether device, tariff or network coverage, compared to the mobile operator belief that a collection of issues will drive loyalty and churn, positively and negatively, respectively.

Consumers believe they are loyal – with over 90% claiming to be loyal to their mobile operator. However, over one-fifth have changed mobile operator in the last six months, and a similar number intend to churn in the coming months. This implies that at any one-time, there is a settled subscriber base of 50% per subscriber, though this does seem very low. By cross-referencing the results with content spend, it shows that the longer a customer stays with a mobile operator, not only does their loyalty increase, but their propensity to spend on non-communication services increases – by over 20% for almost one-fifth of subscribers.

Key to driving loyalty (and conversely, churn) are better devices and better tariffs. If an operator is not supplying the latest devices, or being innovative and competitive with its tariffs, it runs the risk of losing customers to rivals. But the ultimate weapon in an operator's arsenal will be the provision of 4G.

LTE will be the glue that cements a customer's loyalty with a mobile operator. But if the operator does not heed the warnings outlined above, they will suffer at the hands of their rivals. The research shows that mobile customers are aware of LTE, and they know what it means for them, and most importantly they are prepared to increase their mobile spend once they become a 4G user.

Perhaps the most significant development from the research is the fact that almost 60% of consumer respondents claimed that they would move mobile operators in order to access 4G connectivity. There is clearly significant pent-up demand for 4G. Although the research demonstrates that if a mobile operator has launched 4G then they are most likely to increase the loyalty of their mobile subscriber base. Conversely, for a mobile operator yet to launch LTE, the lack of superfast broadband presents a compelling reason for the subscriber to churn to a rival offering 4G. What is prevalent is that LTE has a dramatically higher impact on churn than any of the existing reasons to churn outlined previously in this white paper.

If a mobile operator is not first to market with 4G, it will need to be talking about LTE to its customers now, and its rollout plans for LTE, and when customers can expect to experience superfast broadband, so that customers know what is coming, and when they can access it with their existing provider. That in turn will assist loyalty, and also drive consumer spend on non-communication services. Because the clear message coming from the research is that LTE will have a very positive impact on the mobile operators, and in turn, mobile consumers will increase their mobile investment.

Ultimately, the introduction of LTE is expected to generate an uplift in ARPU. And that is very, very good news for mobile operators.



# mobile<sup>SQUARED</sup>

mobile<sup>SQUARED</sup> provides specialist research which enables brands, agencies, the public sector and mobile industry to access, and engage with, the mobile consumer. Together, we conduct primary research with a focus on delivering forward-looking data around mobile device usage on mobile web, app, marketing, advertising and commerce, to help you identify and respond to fast-changing mobile trends.

mobile<sup>SQUARED</sup> was launched in 2009 by leading mobile industry analyst Nick Lane, and has since been bolstered with expertise from the mobile industry in Gavin Patterson, and Jo Lane from the world of media. In 2011, Caroline Baldwin joined as a reporter & researcher to drive the company's weekly and monthly titles, Becci Price heads up our marketing & PR, while our client services manager is Aman Toor.

mobile<sup>SQUARED</sup> has approx. 40 years combined experience researching the mobile communications industry – starting in 1996 when Nick joined Philips Tarifica, and Gavin joined Baskerville Communications, publisher of Global Mobile, 3G Mobile and Mobile Media. Both went on to be Principal Analysts at Informa Telecoms & Media, researching emerging mobile industry trends and forecasting the latest usage patterns

For more information [www.mobilesquared.co.uk](http://www.mobilesquared.co.uk)

