

Finding value for the consumer



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While a fair amount of research has been done on brands and customer satisfaction, little meaningful research exists on core consumer value. In the telecom industry, many will argue that brand and customer satisfaction are critical elements for success in this evolving and increasingly competitive market. However, without understanding what value consumers place on what is being offered, it's difficult for operators to effectively build and modify their strategies for the future.

With this in mind, last fall, PwC's telecom practice in India teamed up with a leading Indian business school to understand consumer value. What is it that mobile users value most and how much value do they place on what is being offered to them?

The result was a study of usage patterns and consumer value in the Indian mobile telephony market, conducted in conjunction with the Indian Institute of Management, Ahmedabad. Since it was launched, the study has generated interesting insights about consumer value in general and value for the mobile user in India in particular. While the study focused on the Indian market, we think the findings will be of interest to operators in other markets – if for no other reason than to get them thinking from a different point of view about the consumer and their service offerings.

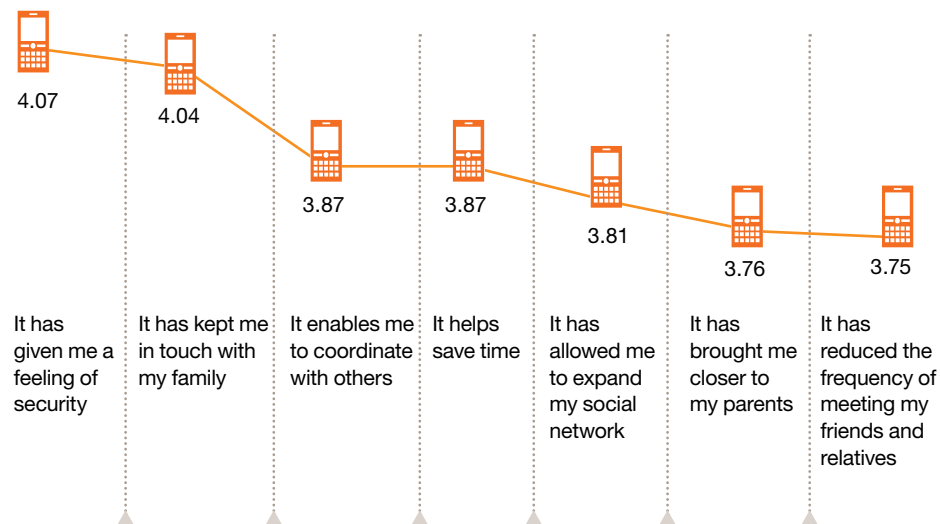
The telecom industry is at a crossroads today as subscriber growth has tapered off. Operators are now more focused on reducing churn and increasing average revenue per user (ARPU), rather than concentrating on adding subscribers as in the halcyon period up to 2010, when India added up to 20 million subscribers in some months.

To gauge the value consumers place on mobile services, we conducted the PwC-IIMA Survey on Consumer Value. We interviewed 2,152 consumers across 17 locations and six telecom circles in India. The interviews were conducted across different socio-economic classes, age groups, genders, and professions.¹

We asked mobile telephone users to rate the economic, social, and personal benefits they derive from telecom services. At an aggregate level, respondents reported deriving more social and economic value followed by personal value. Eighty-four percent of consumers feel that mobile is good value for money and 80% believe that mobile is important to them. Mobile consumers see most value in a feeling of security, being in touch with their family, helping them co-ordinate with others, saving time, and expanding their social network (see Figure 1).

Figure 1: Top benefits from the use of telecom services

Scores: Highly agree = 5 and Highly disagree = 1



Base: All respondents (2,152)

Source: PwC-IIMA Survey on Consumer Value

Does perceived value change with time and place?

It only seems to take a year for users to realise value from adopting mobile. Once settled into the benefits of mobility, users tend to derive as much utility whether they've been on a network for just a few years or for many. The difference between new (less than one year of usage) and existing users (over one year of usage) is significantly high on the following attributes:

- **Feeling of security:** Newer users value the feeling of security that mobiles give them more than those who have used mobiles for a while.
- **More productive:** New users of mobiles value them more for increased productivity.
- **Stay away from mobile:** Until they get used to mobility, many new users feel that if they had a chance they would stay away from mobiles.

Are operators leaving money on the table?

In a perfect world, brand, price, and value would be in equilibrium. However, brand consciousness for telecom services is significantly lower than price and value.

[Editor's note: The socio-economic classification (SEC) system in India is used to classify households based on education levels and asset ownership, see Figure 2 for further explanation.]

Within socio-economic segments, SEC C has the lowest brand consciousness but the highest price and value consciousness. This segment, comprising the skilled working class, appears to be a tough-to-crack market as consumers are focused not only on the sacrifice (price) they are making in owning and using a mobile but also on the return they get (value). They are not looking for brand intangibles.

¹ Extensive insights on the profile of the interviewed sample can be found on our website at <http://www.pwc.in/publications/finding-value-for-consumer.jhtml>.

According to our study, some unique characteristics of SEC C are: highest propensity to churn (switch provider); lowest propensity to migrate to postpaid; less than expected propensity to shift to 3G. Yet, they make use of the most features in a smartphone.

For SEC A, since price consciousness is lower than value consciousness, marketers will want to examine if they can command more premium for the value on offer. SEC D and E, making up 47% of India's population, see least value in mobile telephony. There is room to show them more value and thereby potentially improve revenue.

The survey also revealed that no segment values brand above price or value in India. Changing this view should be a top priority for marketers in order to combat long-term churn and rotation.

One of the most exciting findings of this survey is that mobile users' aspirations to buy a more expensive phone are largely irrespective of their socio-economic status. To us, this underlines the hope and aspiration of the Indian consumer.

As they are exposed to higher value products, even when current income levels do not justify such a leap, they aspire to own them. When measured by consumer aspirations, the market looks very different from the current reality.

What determines the mobile experience?

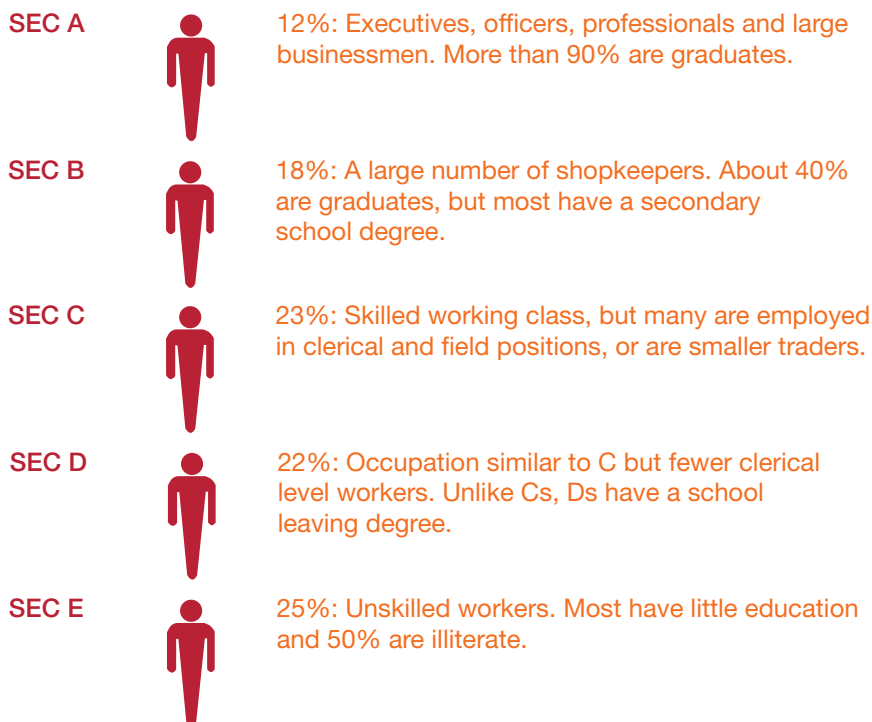
We asked consumers about the importance of handsets versus networks in the telecom experience. The majority believe that the experience is determined by the network. This is not necessarily good news for operators, as it places the

burden of delivery on them for a superior user experience. However, it also presents them with the opportunity to differentiate from their competitors on network range, speed, and quality.

When asked to recollect the brands that come to mind when they think about mobiles, almost 90% of customers had top-of-mind recall for handset brands more than network operators. So there remains a distinct opportunity for operators to differentiate the network from the device as the key to a quality experience, and thereby increase network brand recall.

When asked specifically about their perception of network brands, respondents indicated that the significant brand differentiator across circles is network coverage. In a metro market such as Mumbai customer service is most important, while in Assam network quality is the biggest driver for a differentiated brand.

Figure 2: About the new urban SEC classification and sample profile



Postpaid migration: Has its time come?

Given it is a largely prepaid market, most people have now forgotten that in India postpaid services were actually launched earlier than prepaid. However, it was the introduction of prepaid services that drove penetration and ushered in the mobile revolution. With subscriber growth slowing, one of the ways for networks to increase usage and revenues, reduce uncertainty of cash flows and churn is by converting selected consumers from prepaid to postpaid.

Industry data shows that, in general, postpaid consumers not only provide a steady revenue stream, but around 5x the ARPU of prepaid.² Postpaid subscribers also tend to spend more on

² Interim Management Statement-Quarter to 30 June 2013, Vodafone.

other value added services and their loyalty to the network is higher. The churn rate of postpaid subscribers is only 35%³ versus 70%⁴ of prepaid.

We looked at the SEC segments, professions, and age profiles to see who were willing (likely and highly likely) to migrate to postpaid. Among socio-economic segments, SEC A and SEC B showed the highest propensity. Among professions, students and salaried professionals had a higher propensity to migrate to postpaid. By demographic profile, millennials were more ready to migrate to postpaid.

Marketers have the opportunity to target their below-the-line campaigns with much more certainty if they cross-analyse their consumers by income segment and profession in order to reduce the cost of customer acquisition.

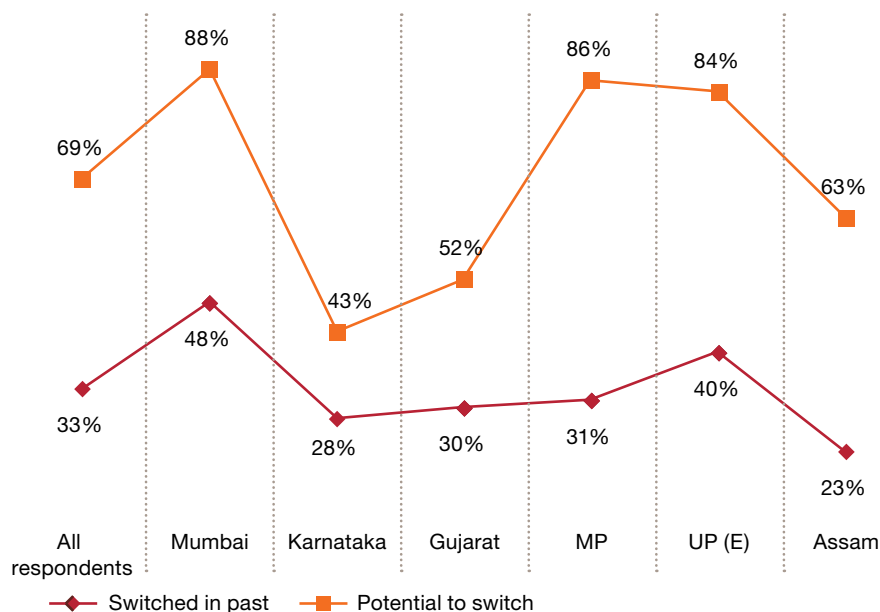
Our study also indicates that willingness to migrate to postpaid is strongly associated with data usage and even even more so to particular data usage patterns:

- Overall, data users are two and a half times more likely to shift to postpaid than non-data users.
- Internet pack users are four times more likely to migrate to postpaid, than non-data users, and twice more likely than low-cost SMS users.

Is churn pervasive or containable?

Churn has been one of the biggest issues faced by the Indian mobile industry over the years. The industry has witnessed a monthly churn rate of 6%⁵ over the last year.

Figure 3: One-third of consumers switched providers in the past and 69% have the 'potential to switch'



Source: PwC-IIMA Survey on Consumer Value

To our surprise, 67% of respondents stated that they have never switched networks and only about 33% have switched in the past. (See Figure 3.)

The respondents were also asked which network they would choose if they had to buy another SIM card. The list of options included their present network. Interestingly, 69% of respondents selected a network other than their existing network. We treat the choice of another network as a proxy for potential to switch.

The high incidence of potential switchers reaffirms the fact that networks need to focus on avoiding churn even among those who have not

switched in the past. What is alarming is that the percentage of potential switchers is almost twice that of those who have switched in the past.

When we analyse the data to see if perceived value has any relevance in containing churn, it appears that the consumers who derive higher value from the network will have a higher propensity to be loyal.

So who should worry?

Operators entered the Indian market in tranches and can be categorised by longevity of operation in a circle, i.e., operators issued licences before 2001 are termed as early entrants, those between 2002 to 2007 as mid entrants, and post 2008 as late entrants.

3 Ibid.

4 Quarterly Report—First Quarter Ended June 30, 2013, Idea Cellular Limited.

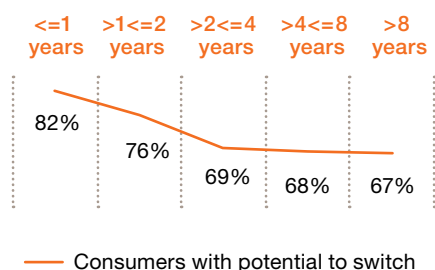
5 Idea and Airtel quarterly company reports from Q2FY13 to Q1FY14.

The survey data is clear in emphasising the challenge faced by late entrants in managing churn as their 'potential to switch' is significantly higher than that for mid or early entrants. The striking exception is a late entrant in Uttar Pradesh (E) which has performed exceedingly well. If we exclude Uttar Pradesh (E) and look at the 'potential to switch' data, we look upon an alarming future for mid and late entrants, as early entrants are the stronger networks of choice.

Taken together, the data suggests that unless specific steps are taken, there will be an increase in the subscriber base of early entrants and erosion of the subscriber base from mid and late entrants.

Not surprisingly, when we map longevity of mobile usage to 'potential to switch', we further see that new consumers have a higher potential to switch than those consumers who have been using mobiles longer (see Figure 4).

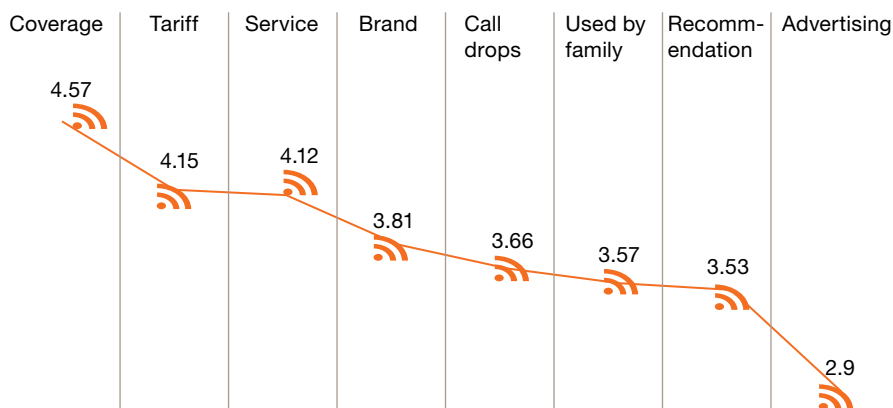
Figure 4: Longevity reduces potential to switch



Source: PwC-IIMA Survey on Consumer Value

Figure 5: Factors influencing the choice of new network

Scores: Highly agree = 5 and Highly disagree = 1



Source: PwC-IIMA Survey on Consumer Value

As for the demographics on which consumers will switch, the survey results indicate that those under the age of 30 are more willing to select a next network other than their current network.

The switching tendency of SEC C is higher than the overall average. Value perception of SEC C is lowest among all SECs and they are highly price-conscious. These are likely determining factors for their switching behaviour. We see opportunities for marketers to profile users more on SEC banding rather than on spend and communications use.

For respondents across segments, coverage remains the largest determinant during network selection (see Figure 5). While brand is more important than recommendations, advertising is given the lowest importance. Students, while broadly showing a similar trend, exhibit a higher reliance on service, brand, family, and recommendations while making a purchase decision.

Will data deliver its promise?

Data and value-added services (VAS) are the new growth engines for Indian operators. Non-voice revenue contribution for Indian operators is half that of its Asian peers and there is strong potential for growth. While over the last year, data has been growing rapidly, traditional VAS has slowed primarily due to regulatory interventions and the availability of free content on the Internet.

We asked respondents about their awareness levels, usage, and willingness to use services across entertainment, information, Internet, and utility categories, and found that this varied across services, geographies, and professions. We found there is a linear relationship between awareness and usage. The dominant trend is that one-third of respondents aware of entertainment or infotainment VAS also use them.

The survey responses show that even with 3G, the adoption of new services is not guaranteed. Awareness of 3G services increases as we climb up the social strata; 66% in SEC A are aware of 3G as compared to 37% in SEC E. However, across socio-economic segments, only half of the aware population also wishes to use 3G.

To probe further, we asked active 3G users as to what will enable them to increase data usage. The responses show that the key enablers are higher speeds, lower prices, and better

networks. The respondents do not seek new services, but rather the basics.

So, what do operators need to do to increase data services adoption and usage?

We queried respondents on barriers to the adoption of VAS and data services. Across income segments, price of data services and handset capability are key constraints. SEC C seems to be more concerned with content and handset compared to other SECs. Nineteen percent of SEC C respondents say that

'content is not effective or useful' and 27% mentioned that 'current handset does not support'.

The profile of data users, according to our survey, are fun-loving seekers of new experiences. This was also reflected in their switching tendency. The segment may place a premium on innovation and not be satisfied with just utility. The segment needs continuous engagement and services that are contextual and generate repeat usage, for instance, social media and messenger services.



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Download the main report, access the results and explore findings of PwC-IIMA Survey on Consumer Value online at <http://www.pwc.in/publications/finding-value-for-consumer.jhtml>.

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