

# Serving Communities on the Cusp of Change

A Report by TA Telecom



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# Serving Communities on the Cusp of Change

Understanding and optimising the mobile value added services market in Africa

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## Learning from change

Many African mobile operators are now confronting entirely new sets of challenges - challenges that previously have only impacted service providers in more developed regions. If they're to avoid the same fate – eroded profits, high churn and exclusion from the digital value chain – then they're going to have to do a better job of understanding and anticipating the changes that their customers and the communities they serve are going through.

New devices like low-cost smartphones or OTT technologies and services will inevitably undermine their traditional business models and revenue streams. Competition can appear almost overnight from unexpected directions, often exploiting the service provider's own infrastructure. Messaging services that once acted as cash cows become perceived as last generation antiques by increasingly restless users. Customers will inevitably go in search of lower tariffs, richer and more personalised community-based services, and even more stimulating and diverse sources for their news and entertainment.

It is hoped that this document from TA Telecom will help mobile service providers in Africa discover a new way of doing business – a way that takes their established strengths, assets and relationships and helps refocus them to drive innovation, new services and revenue growth.

By taking a well-understood service like SMS-based infotainment content – but then enhancing and targeting it better – it becomes relatively straightforward for mobile operators to radically increase profits from the pre-paid subscriber sector. This is only possible however with a deep understanding of the dynamics of the local individuals, cultures and communities involved and how they use news and content in their everyday lives.

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## The current battleground

Many mobile service providers - although owning the latest generation messaging and content delivery platforms – are failing to exploit their potential with the kind of marketing insight into consumer behaviour that's needed to create truly entrepreneurial and innovative business models. Other industry sectors – retail and finance – track customer behaviours intensively, using this data to innovate and block competitors. Why can't mobile operators do the same thing?

Their problem is that customer data and the analytic tools, skills and expertise needed to extract value may be locked away in organisational silos with little real interaction. In particular, within many service providers there are often inevitable tensions between different departments - such as marketing and engineering - that impact on time-to-market issues and prevent the company-wide adoption of a truly dynamic and responsive consumer-facing culture.

## Focusing on Africa's pre-paid potential – and pitfalls – for mobile operators

Despite admired innovation in areas like mobile money and m-health, Africa has long lagged behind other regions of the world in mobile usage and coverage. It is now however the second largest world market after Asia with growth spreading rapidly, if unevenly, across the region's 54 countries.

According to figures published at the end of 2012 by ABI Research, total cellular penetration in Africa is expected to have reached 80 percent by the end of the first quarter of 2013, with **growth continuing at around 4.2 percent** – a rate unequalled anywhere else in the world. The majority of connections – 62.7 percent – are still basic 2G voice and SMS services. Of the rest, around 27 percent are using 2.5G services for low speed data, while the remaining 11 percent have 3G access based on WCDMA or CDMA2000 technologies.

While voice services still account for the great majority of revenues, data services including SMS make up around 26 percent of income in South Africa, Kenya and Nigeria, still growing at a very healthy 67 percent over the last few years according to the GSMA.

With the exception of South Africa, where prepaid subscriptions range from 70 percent to 86 percent across different operators, in other regions prepaid usage accounts for well over 95 percent of services, even approaching 99 percent in some countries.

## The smartphone's arrived in Africa – and data revenues are starting to boom

In terms of smartphone and mobile internet adoption, the picture is similarly mixed with smartphone penetration for the whole continent placed at around 20 percent by the GSMA. This however is changing rapidly as economic growth drives the creation of a new middle class, currently estimated at around 35 percent of Africa's total population. Recent research by Kenya-based iHub shows that mobile internet penetration now almost equals that of the fixed internet in the West African countries of Nigeria and Ghana. Informa Telecoms & Media, for example, expects the number of smartphone users in Nigeria to rise from the current figure of around six million to more than 35 million by 2017.



Many device manufacturers are now targeting this market, introducing lower cost devices. Microsoft and Huawei launched their 4Afrika smartphone in February 2013, while other major players such as Samsung, ZTE and Lenovo are developing smartphones to sell for less than \$50.

While all these statistics may seem good news for the whole mobile industry in Africa, when you drill down a little more deeply into the actual profits that these innovations might generate, the picture becomes a lot murkier. Just as other markets have seen in the past – and service providers in Africa are now starting to experience – it is possible to rapidly grow service take-up in the short term by cutting tariffs and device prices, but this inevitably impacts revenues. Again according to the GSMA, global ARPUs (Average Revenue Per User) between 2001 and 2011 fell by 80 percent as a result of increased competition and the introduction of low tariffs to attract low income users.

The arrival of affordable smartphones, wider 3G coverage and lower tariffs are great news for Africa's subscribers – and for the economy of the continent as a whole, potentially kick-starting digitally-driven innovation across a huge variety of areas. However, unmistakeable signs are already emerging that these new devices are starting to erode the once solid revenues generated by messaging services, with customers switching to OTT services such as WhatsApp and others. Over the last year or so, for example, South Africa's Vodacom has seen a nine percent drop in SMS and MMS traffic and a four percent drop in revenues generated by these services.

That said, Vodacom now makes three times as much money from its mobile data services as it does from the shrinking messaging sector - a clear demonstration for other service providers of the importance of developing alternative strategies before the arrival of the data hits their traditional cash cows.

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## Strategies for defence – and attack !

If they're to retain their dominance in these new, emerging, content-based value chains and avoid being relegated to becoming 'dumb bit-pipes' for the OTT service and content providers to exploit, mobile operators must be able to offer even users of basic phones highly personalised, Internet-like services at appropriately low costs. They must also simultaneously use the customer data gathered to increase the stickiness of the services, develop partnerships with advertisers and application and content providers, and grow with their subscribers into the inevitable mobile Internet future.

In a continent like Africa with seven major language groups and an estimated total of nearly 3000 languages, service providers must learn to service this diversity in cost-effective and culturally appropriate ways. Even within the same geographic country, different groups may display huge variations in literacy, religious and social interests, economic power and domestic and communal relationships. Some groups may be happy to search out new content and services themselves, constantly pushing their digital boundaries. Others by contrast will remain highly conservative, preferring only content from trusted sources to be shared amongst friends and family.

If mobile service providers fail to track and reflect this diversity in their marketing, service creation and partnering strategies, they'll face a 'disintermediation' from the virtual value chain – to use the technical term – and a low-profit future as a commodity utility.

Achieving this is not straightforward – as many service providers in developed countries have already found to their cost. It requires combining the technical expertise needed to create the right kind of service delivery platform, analytic tools and decision-support dashboards with a deep understanding of the cultural, communal and personal factors that drive mobile usage across different sectors of the population.



## One size doesn't fit all anywhere, let alone in Africa – understanding the micro-markets of mobile

Driven by the factors highlighted above, the map of Africa's mobile aspirations, usage and service drivers is currently being totally redrawn. As the demographics of the African mobile market alter and mature, driven by factors such as a bulge in the youth cohort, economic development and shifts in social relationships, mobile service providers must be ready to recognise and exploit even the smallest alterations in consumer behaviours.

When multiplied across millions of customers, seemingly insignificant changes in one individual subscriber's usage and spending - driven by intelligently targeted promotions and infotainment services - can soon have significant effects on a service provider's bottom line. While even basic traditional services such as SMS can be exploited in this way to increase revenues and reduce churn, the effects are magnified still further when social networking services, multimedia content, advertising, location, mapping and messaging are also added into the mix.



The complexities of the different markets and customer segments are additionally compounded by the huge variations in the use and perception of complementary media such as TV, radio and newspapers. Political, regulatory, social and economic factors all contribute to these issues and the resulting restrictions in traditional media can impact mobile usage in a number of ways, bypassing establishment restrictions, opening debate to alternative voices and creating new revenue streams for operators.

If we take just one example of typical research carried out to understand the behaviours of one national marketplace, it quickly becomes clear how these insights can be profitably translated into new content and service strategies:

**News sources:** Nearly 40 percent of users preferred having news sent to them, while 14 percent – mainly consisting of younger users – preferred searching it out for themselves. In terms of other news sources, TV, followed by Facebook and then newspapers were the favoured media, although the younger generation again showed a preference for Facebook.

**Gender differences:** Gender preferences were clearly highlighted by the study, with news and sport scoring highly for men and fashion, health and beauty items drawing female users. Status amongst their peer groups was felt to be enhanced by the men, with more knowledge translating into competitive dominance; while for the women, the ability to be up to date with news made them feel more empowered with partners, families and communities.

**Religion's content role:** Religious content was also popular amongst users, coming second after local news feeds but higher than international news and sport.

**Pricing:** Although half the users weren't aware of how they paid for the service (a monthly subscription through their service provider), one in two users thought the service affordable.

Whatever the services and content subscribed to, the majority of users felt that the access to information and breaking news kept them up to date, empowered and educated and made them feel more important and influential in their dealings with their friends and communities.



## Building a comprehensive and successful data services strategy for the future

Reaching these emerging market sectors, fulfilling their needs in appropriate and profitable ways - while still refining strategies for future growth - can all be achieved now through the intelligent use of subscription-based infotainment services. Simplicity is usually more successful than complexity when it comes to developing markets and new user cohorts and the sheer historical familiarity of SMS will make it very attractive to conservative customer groups in particular.

Additionally, SMS services are handset agnostic, eliminating many of the difficulties operators face when rolling out more advanced services to mass markets. Secondly, the subscription-based, push nature of these services requires no further effort from the customer once they have signed up – but, once in place, the regular nature of the alerts keeps the relationship alive without the need for aggressive or expensive marketing and advertising to retain market share of voice. Finally, the range of potential areas for infotainment topics – from health to news to religion to fashion and so on – creates multiple touch points for operators to get better insights into their customers' interest and behaviours, upsell new services and partner with specialist third party content providers.

To achieve this, three key building blocks are needed to increase revenues from data services in the short term - and also create sustainable and healthy margins in the longer term. These pillars are essential for carrying out the activities in the following section.



### **1. There must be a strategic focus on infotainment subscription services**

This requires a conscious decision by the VAS team and Marketing Director to assume control of infotainment subscription services, beyond simply giving VAS providers shortcodes and passively watching revenues come in at the end of every month. Where this approach has been successful, we have seen activities and revenues from infotainment subscriptions take priority in management discussions and become included as a separate line-item in CXO meetings and reports. This shift in mindset is a vitally important starting point.

### **2. Use a specialized platform**

To capture both short and long term opportunities, a flexible, specialized platform focused on infotainment subscriptions services has to be in place. Such a platform should cater to the needs of all stakeholders and should include at least the following:

- End-user privacy protection by masking MSISDNs from VAS providers
- Flexible charging options for content services including the most important of them all - time-based micro-subscription charging
- Multiple store-fronts and interaction channels with users including SMS, USSD, WAP, WEB
- Support for diverse content types (text, images, video, audio)
- A powerful analytics platform with interactive charts, drill downs, etc that allows VAS management to make sense of the vast amounts of data at their fingertips
- A rich customer care interface that gives agents more data and more control of the user's subscribed services
- A simple yet flexible content management interface that allows content providers with different levels of technical competence to easily interact with the platform to upload content and extract usage reports and charts
- Cross-selling capabilities that allow for the automatic selling of content services to users based on their interests and the aggregation of data from group behaviors
- Social media integration that capitalizes on the viral nature of social media to increase service exposure and revenues and drives a deeper understanding of the users and their interests

### **3. Create a dedicated cross-functional team**

VAS team members are typically swamped with managing multiple products, revenue targets they need to meet on a monthly or quarterly basis and reports that need to be written for management - as well as innovation management and searching for the next big thing. At best, there is probably only a small team of two or three marketing team members that actually focuses on infotainment services and third party management. To carry out the activities in the following section and materializes the output of these activities, a closely knit, cross-functional team that comprises some of these members is needed: content quality managers, third party manager, content director, product and roadmap manager, segments manager, data scientist and statistician, technical operations and development team.

## Putting the strategy into practice

### **1. Monitoring and managing service churn**

Churn is the enemy of growth so the starting point must be to focus on service churn management. If the aggregate churn on the platform is more than 15% then it is counterproductive and wasted effort to conduct any user acquisition activities. A detailed churn analysis per service is needed and should be monitored daily, if not in realtime. Where possible, churn rates should be benchmarked against other operators' averages and churn range and analysis carried out to uncover the reasons behind churn rate extremes across different services.

### **2. Content quality control**

Realtime monitoring and quality checks of outgoing SMSs from content providers is required since low quality of service and high volume of SMSs per service strongly correlate with low service revenues.

### **3. Service quality control**

It is essential to carry out regular spot checks, multiple times each day, testing both content provider service response times and the overall user experience in subscribing and unsubscribing to infotainment services.

### **4. Content gap identification**

By mapping all the services currently live, it becomes possible to identify content gaps in service offerings that represent potential opportunities for additional growth

### **5. Scoring and communication**

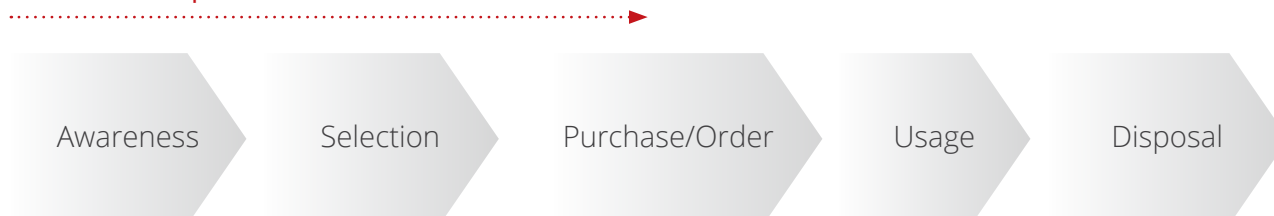
Building on the above activities - especially the service churn rate - it start becoming possible to put a scoring system for infotainment services into place and ensure that services and third parties with high scores should be prioritized by the operator when it comes to support and relationship management.

### **6. Consumption chain analysis**

This activity underpins more strategic planning and, when done properly, can unlock huge opportunities for growth. At its core, it involves identifying and addressing the enragers, dissatisfiers, excitors and differentiators per segment in the chain for infotainment subscription services.

## Simplified Consumption Chain

### Consumer Aquisition



This approach will allow you to identify current drivers and bottlenecks for growth. It is important however to understand this process is dynamic and that bottlenecks and drivers will constantly move up and down the chain as each element is tackled. This activity also needs to be conducted regularly, especially if the rate of revenue growth decreases or revenues plateau. Once bottlenecks are identified, tactics can be defined per consumption-chain element to drive breakthrough growth. Information sources required for this step include user behavior analysis, qualitative and quantitative research and bridging knowledge from other successful operations.

### 7. Segment subscription-service users

This is another core activity that is often overlooked or oversimplified and we have seen operators map their base segments across all infotainment users. Others have taken a simplified approach of segmenting based on either interests, gender or ARPU. Segmentation is ultimately part-art and part-science and it is important to segment infotainment subscription users in a creative ways that can allow you to create multiple segment layers to the eventual point that you reach micro-segments. This segmentation exercise should allow you to:

- Analyze the behavior of new users
- Identify leading indicators for growth
- Build predictive models on the 'ideal customer'
- Identify early adopters of new features

### 8. Segment management

Once segmentation has been conducted, it is important to assign segment managers to devise strategies and tactics for each of the segments that they are responsible for. These tactics will include cross-selling, awareness, promotions, and so on, while the manager must typically

decide: what are the ideal mix of segments we need to reach; which segments do we need to increase, decrease; how will we achieve that? A strong analytics platform will support daily monitoring of the segments' movement to ensure that the tactics are yielding the required results and allow more frequent experiments to be conducted in shorter periods of time. Segments management reports and KPIs will demonstrate the operator's ability to cross-sell services, attract new users, launch attractive service promotions and more.

## **9. Roadmap planning**

The consumption chain analysis and segmentation exercise will be cornerstones for product roadmap planning with the product and roadmap manager using this information to prioritize the rollout of features on the platform. The linking of consumption chain elements to market segments is a particularly powerful step and can be a source of immediate revenue growth. More importantly, this is where it becomes possible to ensure the long term sustainability of advanced services and compete aggressively from a position of strength against the OTT players. By focusing on early adopters and their needs and understanding how they behave towards platform upgrades, new app extensions of the platform and other changes, operators will be better able to compete for the users' loyalty and dollars into the future.

## **10. Cohort analysis**

Keeping an eye on macro changes in user behaviors and their attitude towards subscription services is another important activity. This can only be monitored via cohort analysis, by analyzing the behavior and churn of new users per month and monitoring their progression and usage over the following months.

## **11. Dashboard fine-tuning**

As is obvious from the above, the amount of data that needs to be monitored and managed is huge. Continuous fine-tuning of management dashboards - especially in the very beginning - is an important activity and without a strong analytical platform and analytics team, growth opportunities will inevitably be lost.

## **12. Emotional motivations**

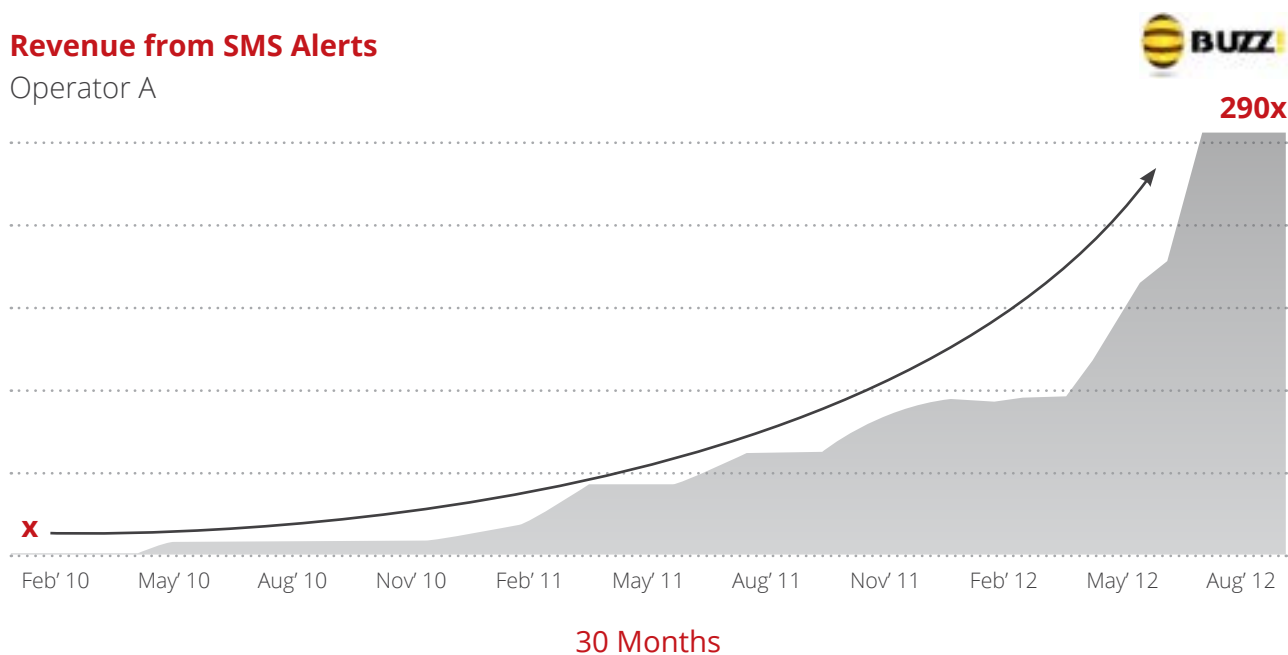
The communications team needs to conduct dedicated research into the emotional motivation behind the use of different services: breaking news vs. sports vs. faith vs. entertainment. We have clearly seen how this emotional motivation of users to subscribe to particular content services has transcended their basic utility and functionality. This activity will feed into the segment and roadmap managers' work, while also setting a new tone and direction for how such services will be communicated to the operators' customer and partner base.

## The outcome

Conducting even just a few of the above steps has already yielded great results for a number of African operators. The below diagram shows the quantitative impact of taking a strategic focus on this area and executing the activities suggested above:

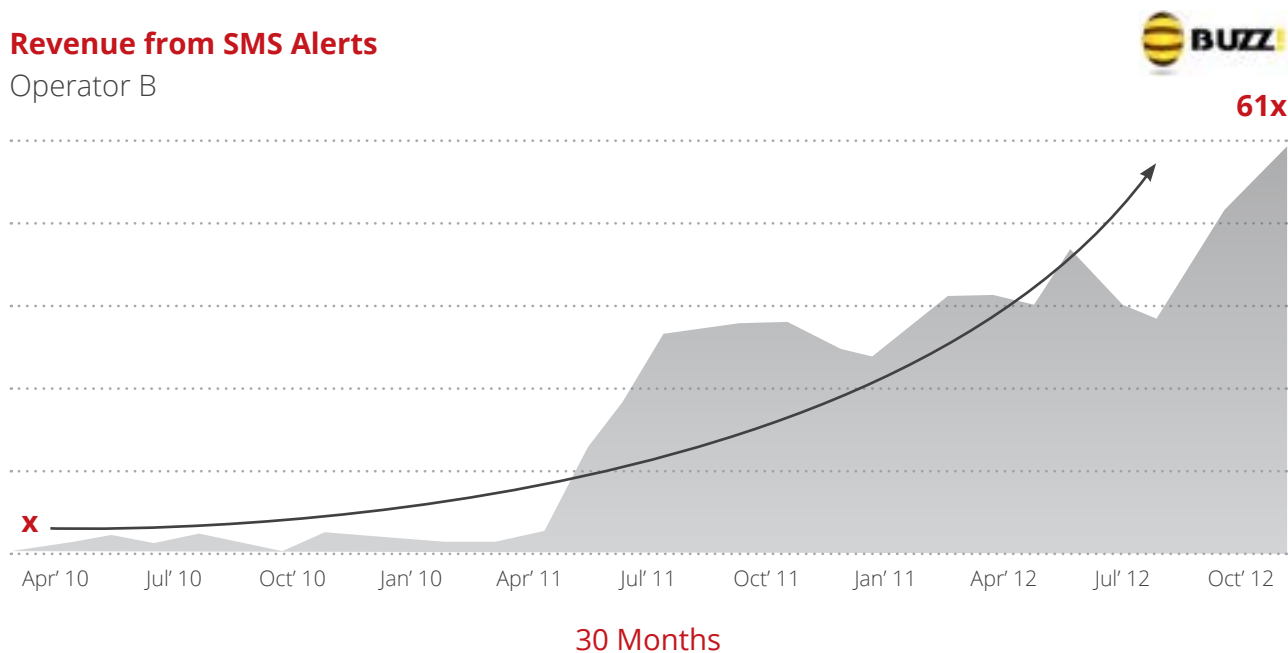
### Revenue from SMS Alerts

Operator A



### Revenue from SMS Alerts

Operator B



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## The BUZZ! platform

BUZZ! Services is a suite of managed tools and services that helps mobile service providers with the analysis and management of SMS and content subscription services, irrespective of which vendor the underlying SDP or billing system came from. Using industry standard interfaces, a powerful analytics engine monitors service usage and displays the appropriate information and KPIs to different decision makers in ways appropriate to them using highly flexible dashboard displays.

Integral to TA Telecom's relationship with its mobile service provider customers is its ability to develop new interfaces – at no extra cost under standard contract terms – to future proof them against emerging threats to their revenue streams and subscriber loyalty and be seen as real innovators in their target markets. Examples of this expertise include Web/WAP store development, Facebook application development, USSD development, and mobile application and shopfront development.

As budget smartphones become increasingly available in the African market, mobile service providers need to be able to act as catalysts for the communities that they serve, offering better and richer customer experiences. They may already have deep insights into their customer usage patterns – but lack the tools to track, report and analyse these in quantitatively disciplined ways. Alternatively, they may at this point in their growth paths lack sufficient in-house resources or skills to carry out these exercises themselves and need support from an external managed service specialist like TA Telecom.

At the heart of BUZZ! Services is an intense focus on the drivers, triggers and barriers that affect the different market segments in the consumption chain of SMS alerts and infotainment. This focus also recognises that different data needs to be gathered and aggregated for different purposes throughout the service lifecycle, ranging from daily operational activities, through monthly reviews of tactics to less regular evaluations and revisions of wider strategy.

In effect, BUZZ! Services becomes a digital laboratory from which the mobile service provider can study the interaction of their consumer communities with the services that they have on offer or are planning to launch. Performance is measured and analysed in rigorous, evidence-based ways providing a solid ground for decision making, while experiments with new services, technologies, devices, storefronts and applications can be performed safely.



