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Convergent pricing in triple and quadruple operators

MMC Group's approach in telecom pricing strategy

By Carlos Valdecantos / Luis Ronda

Few levers have as much power to influence profitability as pricing does. For a typical 3P and 4P operator, a 1 percent increase in price boosts profits by two to three times as much as a 1 percent increase in sales volume. With this assumption in mind, mmC Group has been developing a convergent pricing approach to work with clients to improve both their pricing strategy and the ability to manage pricing over the long term.

mmC Group has deep experience helping telecom operators tap their full pricing potential. A rapid diagnostic analysis allows operators to quickly identify the largest pricing opportunities and tailor an approach to go after them successfully.

Our approach has helped clients gain market share, enhance their product positioning, and grow their bottom line, significantly improving EBITDA¹ and ARPU² by understanding and correcting their current pricing strategy.

Summary

The rise of 3P & 4P convergence distinguishes the current stage of the Telecom sector. On the other hand, pricing is one of the most important levers to avoid ARPU erosion and increase EBITDA during the current

¹ EBITDA: Earnings Before Interest Taxes Depreciation Amortization

² ARPU: Average Revenue Per User

and next few years. These new ways to bundle and deliver triple play (and quadruple play) services to the customer need an alternative approach to resolve and optimize the significant pricing issue.

Convergence is happening fast between the fixed and mobile worlds introducing challenging issues in pricing. In addition, fixed operators face a more challenging environment where bundling services become necessary in order to stay competitive. At the same time, mobile operators must face market evolution trends, with new MVNO's and other competitors playing non-conventional price strategies that can lead to de-positioning and loss of revenues and EBITDA. Pricing is an important lever to improve them.

On the other hand, convergence is a reality in more and more markets every day, being either 3P players who add mobile services to their portfolio or mobile operators entering in the broadband and TV market as part of their growth strategy. Convergent pricing is a powerful tool for both case to improve EBITDA and margin results, profiting of these new scenarios.

Assuming that, as one of the most relevant objectives, 2P & 3P operators are currently focused on improving EBITDA through lowering costs and increasing revenues, convergent pricing unifies a set of methodologies and tools to contribute to this ARPU stimulation, and helping operators to find gaps and inefficiencies in their current strategies such as: current customer's acquisition policies, customer base prices, billing procedures, bundle discounts, etc. While there is no single recipe to determine a pricing gap, a convergent pricing approach conducts all required analyses related to pricing strategy, pricing economics and pricing structures for identifying pricing-related disparities over telecom operator's existing product portfolio and bundles.

Convergent pricing approach

Three pillars are the base of convergent pricing in mobile, broadband and 3P&4P operators. These three pillars facilitate the study and analysis of the current pricing situation and assist in finding inefficiencies, gaps, pricing based possible optimizations, pricing estimations and revenue gains. Finally, they help propose corrective measures, its implementation and follow up. Next figure shows main objectives of mMCC's approach.

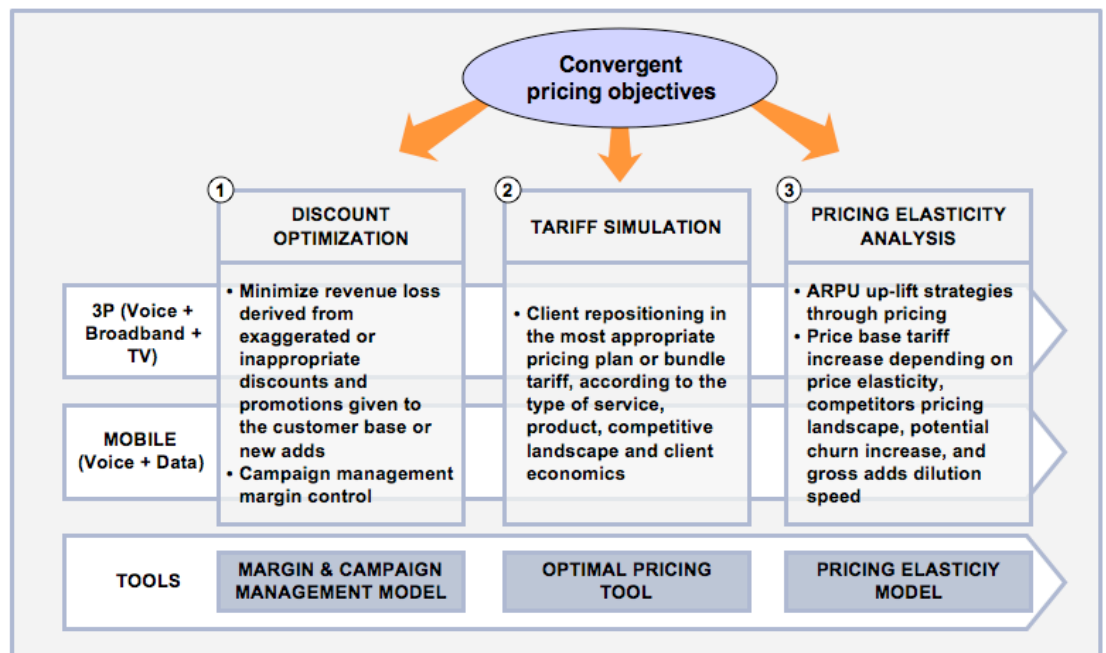


Figure 1. Convergent pricing objectives

Discount optimization

The heavy use of discounts is a regular practice in most convergent telecom operators to acquire new clients or even to retain them. However, many operators abuse of this marketing technique leading to serious pitfalls and loss of revenue in their P&L. This is no longer possible as investors pay more and more attention to monthly EBITDA results.

It is feasible to carry out an analysis of the current discount policies of any telecom operator; using appropriate tools and taking into account both customers' acquisition and customer's base. The minimum necessary steps to cover are shown in the next figure.

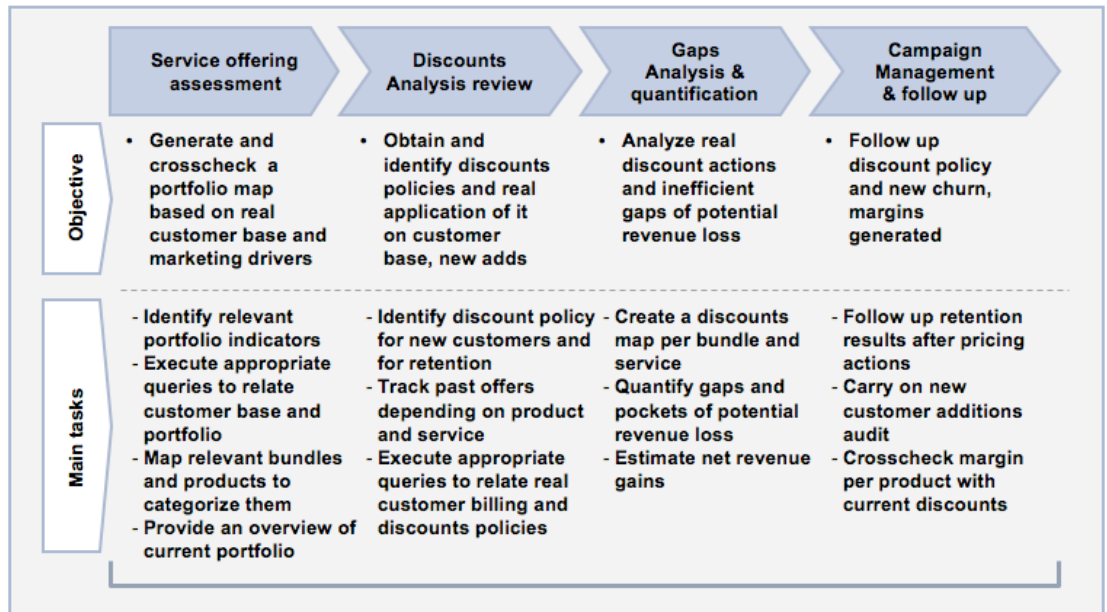


Figure 2. Discount optimization methodology

Results obtained show inefficiencies in terms of revenue savings, usually amounting to thousands of euros per month. This allows the singling out of gaps and inefficiencies. Thus, any operator could run a campaign to remove them, putting in place a plan of action to develop a proper implementation of the savings and its follow up.

Tariff simulation & repositioning

Tariff simulation permits telecom operators to simulate different tariffs against its client's real pattern of consumption. This is a heavy-duty task, where it is mandatory to process millions of CDRs³ in order to simulate just one tariff plan.

As a rule, most managers in telecom operators do not have in-house access to capable working tools that permit accurate and quick data analysis at the level required. Our methodology provides this accuracy by enabling powerful decision making tools. MMC's approach can be seen in the next figure.

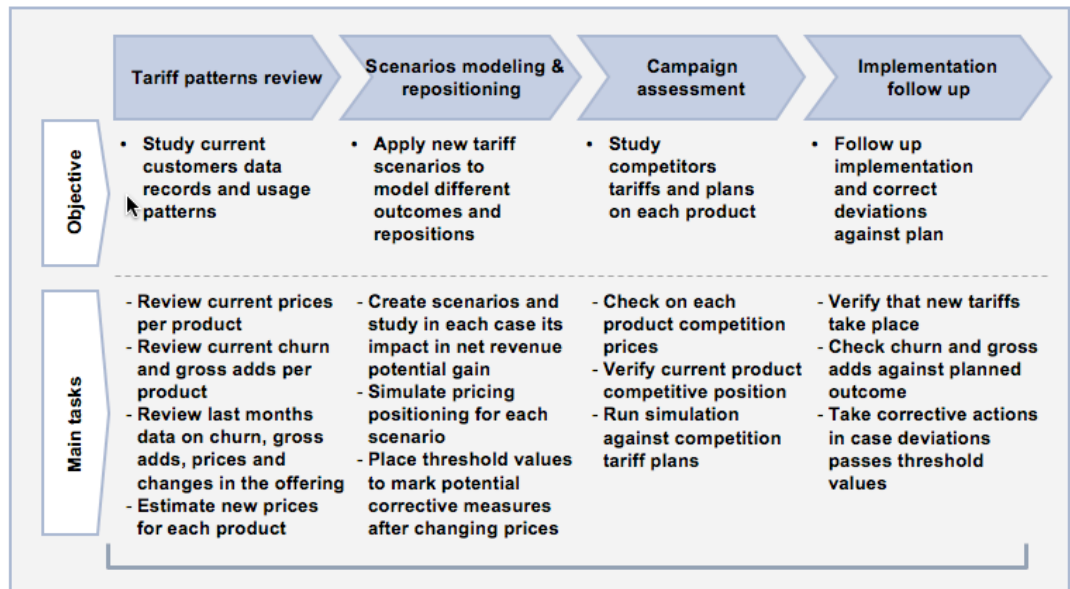


Figure 3. Tariff simulation methodology

As a result, the operator will be able to optimize its current pricing plans over segmented clusters of clients, identifying inefficiencies and repositioning them to different tariffs if necessary. In addition, an operator could run tariff simulations on competitors' plans as essential information to run aggressive campaigns in order to capture customers.

³ CDR Call Data Record

Pricing elasticity

Price elasticity of demand describes the relationship between changes in quantity demanded of a specific telecom service and changes in the price for that service. Elasticity (applied to pricing) is the base driver when analyzing if current price strategy (for both the operator's customer base and future new acquisitions) can be optimized with no-risk associated. The parameters that shape ARPU vs price level, and Price vs churn or gross adds, are fundamental and follow certain patterns in the telecom sector.

By reviewing elasticity associated to its own service's price an operator can optimize the price of each product, and most importantly, minimize the risk of increase in churn. MMC has developed an end-to-end approach to support operators in their pricing strategy redefinition or review, providing proved methodologies and tools to ensure pragmatic, analytic and measurable results in the short term. MMC's approach is detailed in the next figure.

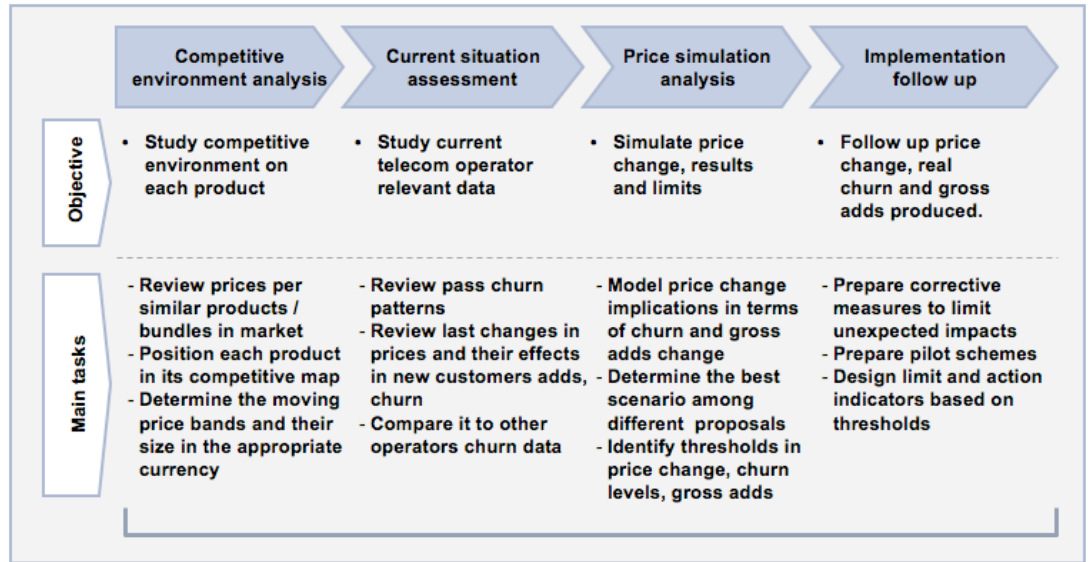


Figure 4. Pricing elasticity methodology

Addressing price change or price increase can be critical in the new convergent telecom arena. A new suggested price list, showing the most likely impact in terms of differential change in gross adds, churn, gross and net revenues, and EBITDA is easily handled within this approach.

Results and sample outputs

mmC Group has developed a strong experience in several convergent pricing projects with millions of customers, i.e. country-wide cable operators, east European mobile networks, etc. We approach pricing strategy by market, product and transaction. We identify how customizing prices across markets and products can affect buying behavior and differentiate offerings.

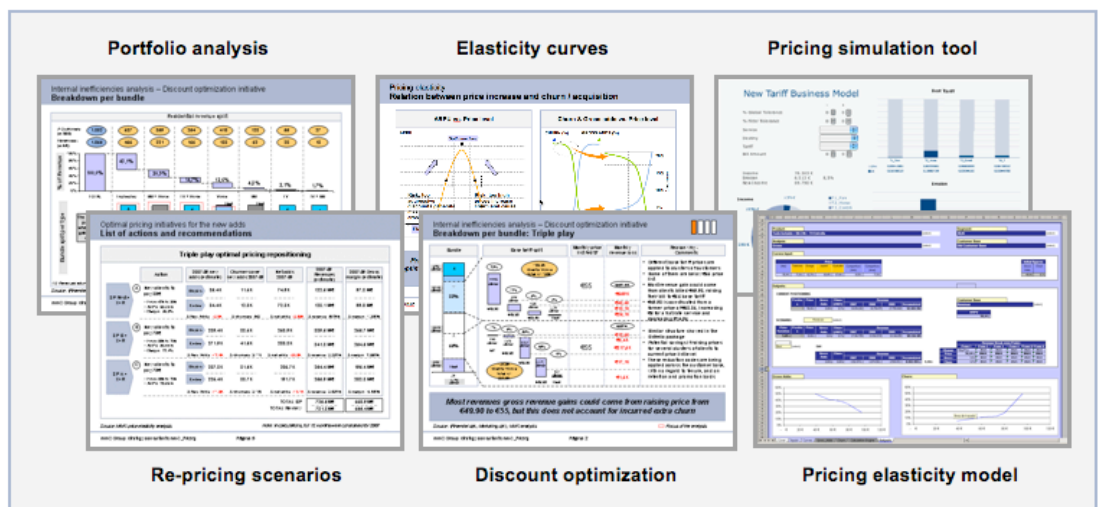


Figure 5. Illustrative outputs and sample results

Working jointly with a client team, we define and implement improvements to the pricing process—everything from integrating it with product design to creating tools and models that measure its financial impact. As a result of these projects amounts to millions of euros in EBITDA improvement from the first year of implementation in each case.

More on convergent pricing

Marketing and pricing executives working for convergent telecom operators interested in increasing their EBITDA, ARPU, identifying sources of potential loss of revenue or just in changing their prices, should address any inquire to Carlos Valdecantos at cva@group-mmc.com

About mmC Group

mmC Group is an international management consulting firm with extensive experience and a strong focus on marketing, sales and business strategy, mostly acquired in the Technology, Media, and Telecommunications (TMT) sector in engagements in more than 20 countries and 3 continents. Founded in 2003 by a group of professionals from various strategic consulting houses, the mmC Group team has extensive experience in marketing, sales and business strategy, mostly in mobile, fixed line and broadband operators.

The key characteristic of the team's experience has been the combination of strategy and execution in advising shareholders and management teams, strategy definition and business opportunity assessments and operations management.

About the Authors

Carlos Valdecantos (cva@group-mmc.com) is a Partner in mmC Group Telecom and High Tech practice. Carlos has experience across Latin America, Europe, and Asia in launching fixed and mobile operators and helping them grow through new technologies, new products, channels, and business models. His 15 years of management consulting experience have been focused in customer segmentation, sales & marketing, and technology for leading wireless operators and alternative wireless providers. Carlos also has expertise in fixed-mobile and telecom-media convergence, and he recently advised a telecom operator on acquisitions in the european media industry.

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Contact data and more info available at www.group-mmc.com.