

Pricing for Profit

Solved.

Nokia Siemens Networks Consulting

Inspired thinking,
innovative solutions

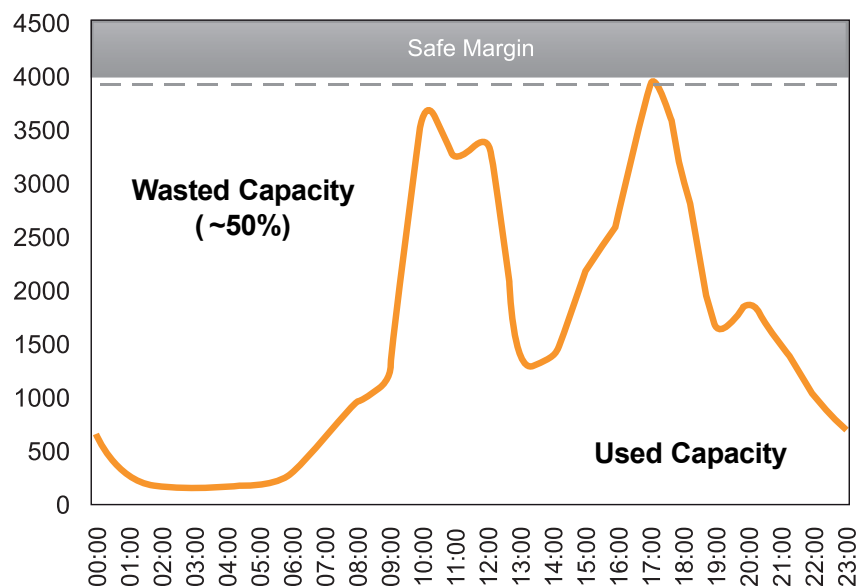
Communication service providers can increase revenues by at least 5% by combining customer insights and service-capacity knowledge.

Our experience from working with many clients across the world in the field of pricing and propositions has revealed some consistent trends and opportunities. In an alarming number of cases, we find the service provider has lost sight of the needs of customers, and is reacting blindly to the pricing moves of competitors. This has potentially disastrous effects on both the profitability of the service provider and the overall sustainability of the market.

The intelligent pricing of services, aligned to customer needs and informed by the available service capacity in the network will ensure the right services reach the right customer at the right time – at the right price.

Today, more than ever, service providers are searching for new levers to improve their profitability and cash flow. Our estimates show that communication service providers, even in mature markets, can increase their revenue by at least 5% without any additional capacity investments, through an improved pricing strategy.

Typical daily usage profile



This opportunity is revealed when the following circumstances occur together:

1. Availability of excess capacity:
Even the most successful service providers rarely utilize more than half their available service capacity throughout a typical day. Allowing for a safe margin above peak demand, this represents a degree of waste unheard of in other industries. For many years, mainstream hotels and airlines have had mechanisms in place to manage pricing and capacity in parallel. In the retail industry, pricing and stock levels are considered together through increasingly sophisticated means. Can you imagine how long a supermarket would survive if it wasted half of its stock each day?

2. High price elasticity:
Despite significant price falls in many markets, our research shows that price is still a major factor in both consumer and enterprise customers' usage decisions. A study¹⁾ by The London School of Economics shows that there are generally large variations in customers' price elasticity by time of day, income, or even location. Our experience has shown that a close correlation often exists between location and income, resulting in the apparent variation in price elasticity between customers in, for example, rural or densely populated urban areas.

3. Room for price differentiation:
Many communication service providers are still at an early stage of the journey that companies like Starbucks and Southwest Airlines have pioneered in their respective fields. While Starbucks excels at innovative pricing and packaging around an essentially simple product, Southwest Airlines packages and promotes seat pricing based on real-time customer insight. These result in varying prices reflecting availability of the product and customers' willingness to pay.

Given these conditions, we believe that many communication service providers are sitting on large opportunities just waiting to be exploited. The following are a few examples of different approaches observed in recent years.

- Hutchison Whampoa's "3" entered 10 markets in Europe and Asia, attracting customers to its empty networks with large bundles of voice, messaging, and data at very attractive unit prices. It even went as far as offering customers in some countries money for receiving calls, thereby sharing part of the call termination fees.
- Orange in Europe offered its customers the option to choose their own off-peak periods, thus giving selective discounts without cannibalizing its existing revenues. Moreover, this opportunity to personalize the subscription enhanced its customer relationships.
- Vodacom in South Africa offers variable discounts on calls from locations with low network utilization. This incredibly popular tariff stimulates additional usage and revenues from particularly price-sensitive customers without cannibalizing revenues from areas of high demand.

For many service providers, unlocking these opportunities appears potentially complex. However, by taking advantage of advances in both technology and marketing over the last 5-10 years, immediate benefits can be gained. Of course, the most appropriate strategy depends on the circumstances in the service provider's market.

Nokia Siemens Networks Consulting uses the following approach to assess the opportunity for exploiting customer insight and service capacity, leading to successful monetizing a service provider's existing customer base through contextual pricing.

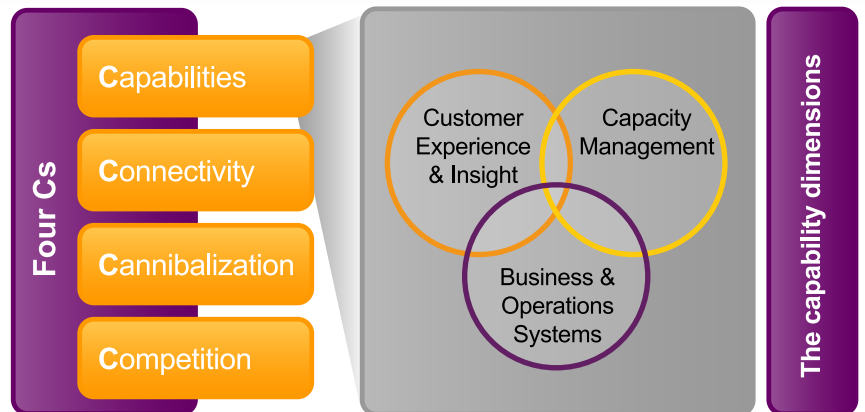
1) Telecom demand: Measures for improving affordability (2006)

“Pricing for Profit” is a systematic approach to identify, articulate, and safeguard pricing opportunities

It was once said that “creativity is the power to connect the seemingly unconnected”, which is particularly relevant for realizing the benefits from “Pricing for Profit”. To be successful, the overall context in four key areas must be considered together.

- **Capability:** some opportunities can be addressed immediately by almost all service providers, while others require a higher level of sophistication to be developed.
- **Connectivity:** a service provider must consider the complex and often tightly regulated business model of telecom – including costs of interconnectivity, transmission, and roaming – fully into account before adjusting its pricing. This is necessary because there is the opportunity to both create and destroy value through pricing strategies.

- **Cannibalization:** a service provider must safeguard itself against the situation where lower prices lead to lower overall spending, or, in academic terms, when price in a customer segment reaches a point where price elasticity is nominally smaller than -1.
- **Competition:** a service provider must also consider the dangers of a price war, which could either reduce its ability to maintain viable margins or reduce overall spending in a customer segment.



Each communication service provider has a unique set of capabilities. The degree and nature of excess capacity, will largely define a service provider's specific opportunity. Successful execution will depend on exploiting capabilities across the following three dimensions simultaneously:

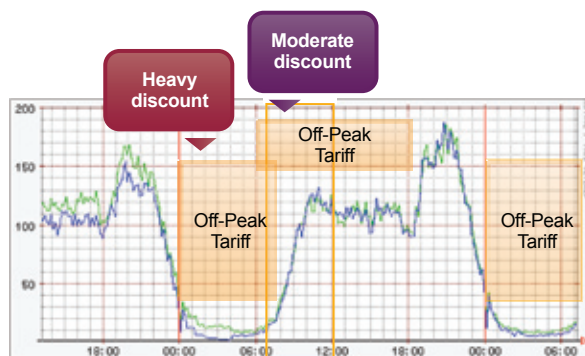
- **Customer Experience & Insight:** the success of a service provider's pricing strategy and tactics depend on their ability to understand their customers' needs, behavior, location, and individual price sensitivity. Operationalizing these insights through the ability to design ad hoc micro-campaigns towards smaller groups of customers is essential.

- **Business & Operations Systems:** some opportunities will require that the service provider has a certain level of sophistication in subscriber data management, service management, and charging. This may be required to a level where they have the capability for real-time analysis coupled with business intelligence to anticipate an individual customer's behavior.
- **Capacity Management:** the exploitation of opportunities related to sporadic excess capacity depends on how good the service provider is at predicting the occurrence and duration of free capacity, as well as the capability to prioritize traffic when its capacity is close to maximum.

Which is better, pricing based on patterns of excess capacity or dynamic pricing and micro-campaigning?

In fact, both can work entirely well in their own right. However, greater benefits can be achieved by effectively combining both disciplines in a well-executed Yield Management strategy.

Pricing based on patterns in excess capacity



Dynamic pricing and micro-campaigning



Patterns in excess capacity usually occur regularly during a certain time or within a geographical area, or even a combination of both. Communication service providers can exploit these by bringing together marketing intelligence with operations-system capabilities. The real fruits of the endeavor can only be achieved if they have a thorough understanding of their customer segmentation and an end-to-end implementation capability.

The following examples illustrate how this has already been achieved:

- In 1991, MCI launched a massive nationwide advertising campaign for its new Family & Friends offering. This gave customers who called pre-defined friends and family numbers a 20% discount, during a given time of the day. MCI had excess capacity in its network outside regular work hours, had studied the market's possible reaction, and managed to catch AT&T sleeping. AT&T's relatively complex billing and charging systems didn't allow it to copy the concept for almost two years. The move was a key driver for MCI's 4% market share increase and additional USD 1.2bn revenues over the two-year period.

- The common practice of offering off-peak tariffs and summer promotions are also motivated by systematic excess capacity. Even large corporate contracts have been priced according to excess capacity logic. It is very likely that some mobile virtual network operator (MVNO) contracts have been partly motivated by matching excess capacity with customer groups in the MVNO's reach. It has also long been an accepted policy for carrier operators to auction their bulk capacity.

Dynamic pricing through micro-campaigning is a powerful approach recently pioneered by a few communication service providers. We expect this approach to become increasingly common as more service providers reach higher levels of sophistication. The basic practises include promoting excess service capacity to targeted customers with buy-one-get-one-free offers and special promotions of high-value services to attract early adopters.

In the most advanced cases, service providers are able to estimate an individual customer's price elasticity, send promotions automatically based on pre-set rules or by acting on real-time data. Cannibalization is prevented as the campaign is only offered to targeted groups with specific behavior and favourable price elasticity. A cascade of smaller campaigns starting with just a few thousand subscribers each allows for low-risk experimentation and learning. The added benefit is that the competition will remain unaware as campaigns are run via SMS, MMS, or by mail and cannot be effectively observed from the outside. For example, Vodafone Italy is running 800 micro-campaigns annually with an average of 12,500 contacts per campaign.

In the future, we predict communication service providers will become increasingly sophisticated at matching customers' individual preferences with their offerings. Service providers can, and should, expand the richness of pricing capabilities to monetize their networks in the increasingly competitive telecom environment. We see a large opportunity for communication service providers in applying the Pricing for Profit methodology. On a short term basis, we estimate gains of at least 5% in revenues with sustained profitability. Our recommendation to communication service providers is to continuously assess their dynamic pricing capabilities and adjust their pricing strategies accordingly on a regular basis.

With its global network of experts, unique insights and deep technical knowledge and experience, Nokia Siemens Networks is in a strong position to help communication service providers "price for profit".

Meet the consultants



Jeremy Brown – Jeremy combines technical skills with commercial acumen and, through his prior experience working for a major European communication service provider, offers unique and valuable insights to Nokia Siemens Networks' customers. After having successfully developed and marketed several video games very early in his career, he has continued to demonstrate an aptitude for innovation and leadership in his approach to customer challenges. In the face of growing competition and an increasing end-user reluctance to pay for services, Jeremy believes that differentiating the customer experience and delivering consistent end-to-end solutions is the key to success.



Eleana Liew – Eleana has worked in the telecommunications industry for more than 12 years, six of which were with a service provider. Other valuable experience included working in an advisory role for Gartner, which gave her the opportunity to analyze business approaches from around the world. Eleana currently works as a Senior Business Consultant, helping clients increase their revenue, margins and customer usage to prevent churn. "Being part of the business consulting team has given me the privilege of having discussions with service providers on their immediate pains, one of which is the increasingly competitive environment", Eleana explains.



Seppo Väkevä – Seppo has been working as a consultant and business developer for over 20 years. He currently works as a Propositions and Services Practice Expert in the Global Consulting Team. Seppo believes that while pricing is easy to copy, companies can still gain a competitive advantage by changing the rules of the game through pricing innovation. "When innovative pricing is applied 'below the line', both customer behavior and competitive reactions can be managed favorably," he says. Since February 2008, Seppo has been responsible for developing Nokia Siemens Networks concepts, as well as providing sales and delivery support for the regional consulting teams.



John Blackney – John has worked with clients around the world and has over 15 years of consulting experience. He is perfectly suited to his role as Head of Nokia Siemens Networks Consulting for the Middle East and Africa region. In John's view, "the key challenge faced by most service providers is to do the basics very well. By this I mean attracting, acquiring, and serving customers in a profitable way. Underlying this is the importance of developing and offering services that customers need and will pay for, not just new technologies."

Do you want to know more about Pricing for Profit?

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