

All in the family...

Family plans are driving mobile service use in the US, making it simple and convenient for the youth segment to obtain a mobile phone. This will help the US achieve further growth in data services. For operators, family plans have both positives and negatives as churn and retention will need to be key focus areas in the future.



THE MOBILE MARKET in the US has, over the years, always played catch-up to the greater penetration and development seen in Western European markets. Telecom analysts have frequently pointed to a generally low interest among consumers for pre-paid services – and a lack of operator marketing efforts behind pre-paid – for the lower penetration of mobile services in the US, especially in the youth segment. Analysts claimed that the US would never achieve penetration above 70 percent in the near-term without a successful push of pre-paid services to the ever-important youth segment, as well as the infrequent user segment.

However, a new wave over the past three years has driven overall market penetration to 72 percent, Ericsson ConsumerLab has found, positioning the US for strong, continued growth in voice and non-voice services. This wave has been the aggressive marketing of family plans.

Born out of the appetite in the US for post-paid bucket plans and add-on services, family (or companion) plans allow an account holder to purchase a bucket of minutes – for example, 700 minutes for USD 70 per month – then share those minutes with other “sub accounts,” generally for USD 10 per additional line, per month. Depending on the operator and plan selected, up to six additional lines may be attached to a single bucket of minutes. And the family plan deals get sweeter. Generally, calls between users of shared minutes are free and, in many cases, so are calls to anyone on the operator’s network. Some operators even allow free SMSs between family plan members. Handset subsidies are also offered and a two-year service agreement is normally required.

The growth of family plans

In 2003, family plans accounted for less than 10 percent of the US market, whereas they now account for 41 percent of adult mobile subscriptions, and 56 percent of new activations. And they are expected to top 52 percent by 2008.

The rapid growth of family plans is easy to understand; in short, they offer incredible value to the consumer: generous voice minutes, free calling between plan members or even within an

operator’s network, simplified billing, and generous handset subsidies.

And for many consumers, signing up for a family plan costs less than purchasing individual lines. It is estimated that more than 50 percent of all “bucket minutes” in the US go unused and are lost each month. (Cingular is an exception, offering a rollover plan.) If someone on a family plan is not using all their minutes, they can pay an additional USD 10 and add another family member to their plan, allowing those minutes to be used. On the other side, about 20 percent of all customers have an “overage” (more minutes used than allotted) in any given month. Not unexpectedly, operators indicate a large percentage of these overages come from Family-related plans.

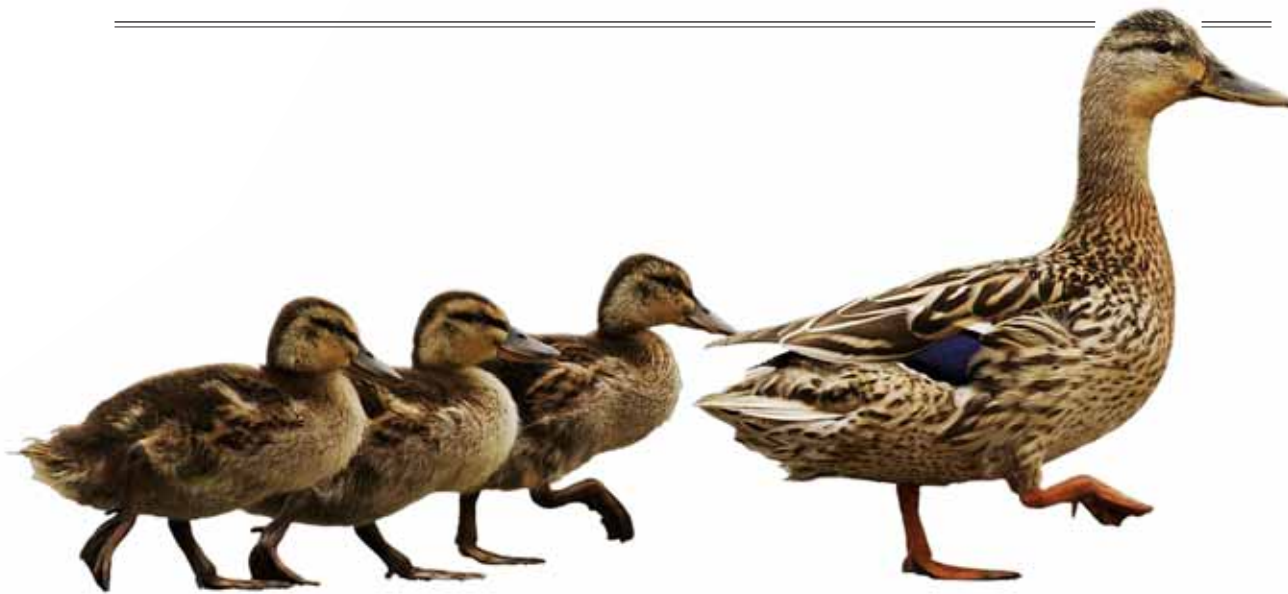
Driving growth in youth segment

Seventy-one percent of all family plans involve only two lines. Ericsson Business Consulting analysis indicates that, in nearly 60 percent of family plan accounts, the master account holder is using 75 percent or more of the monthly bucket minutes. This indicates that a large majority of family plans is being used by consumers with lower usage levels, most likely as a way of cutting costs or as a first foray into wireless services.

The marketing of family plans in both 2005 and 2006 has strongly supported the strategy of using them to bring the incremental user into the mobile arena.

The “low-hanging fruit” among incremental users has been the youth segment. Seventy percent of people aged 13-21 now have mobile phones. This is up sharply from 55 percent in 2003. And of these youth with mobile phones, 72 percent are estimated to be enrolled as part of a family plan, compared with 36 percent in 2003.

Family plans have been a key vehicle for driving penetration within the youth segment. And family plans are the primary way that young people get their first wireless phones. This point is best illustrated by a recent Forrester Research study that found 40 percent of people aged 12-17 on family plans have had their mobile devices for a year or less. With the heavy marketing of family



plans, and the simplicity and value they offer, parents are buying mobile phones for younger and younger children.

The heavy marketing of family plans and their inherent value and flexibility have given parents the opportunity to say “yes” when their children want mobile phones.

Impact of family plans pre-paid uptake

There is no doubt that family plans have had a negative impact on the growth of pre-paid services in the US, where penetration is only 12 percent.

While pre-paid has doubled in size in the past few years, the popularity of family plans has limited its growth. Value and distribution are the key factors here.

The blended average cost of a pre-paid minute is about USD 0.18. Compare this with a family plan average cost of USD 0.07 per minute, as well as the free in-network calling offers, and they are just too attractive to pass up. Throw in all the handset subsidies offered in family plans, and the overall total cost of ownership of a new line for an average user, compared with a new pre-paid line, is estimated to be more than USD 105 cheaper over a two-year term.

Pre-paid distribution is also an issue. While overall points of distribution have more than quadrupled over the past few years, pre-paid is not omnipresent, as it is in Europe or Asia. Distribution is strongest in major metropolitan areas, but decreases sharply in smaller cities and rural areas. Many Tier 2 operators do not readily market pre-paid or limit distribution to company-owned stores, while family plans are available at every wireless store.

Pre-paid-focused mobile virtual network operators (MVNOs) have also been limited by the strength of family plans. ESPN Mobile announced within months of launch that it was abandoning its MVNO concept. While there were many factors behind ESPN's withdrawal from the market, the strength of family plans' ability to use contracts to lock in groups of users for an extended period of time is one of the reasons that ESPN Mobile did not achieve the uptake expected.

Virgin Mobile, one of the original and most successful MVNOs in the US, also sees family plans as a threat. Its target is the youth

market, although it concedes that family plans have forced it to revise this to “Independent Youths” – those young people who want the freedom to have their own mobile phones without being tied to, or controlled by, their parents.

While it is difficult to quantify the impact that family plans have had on pre-paid penetration, it is estimated it would be about four to six points higher had family plans not been as strong as they are.

Impact of family plans on data services

While pre-paid services have been limited by the introduction and strength of family plans, data services have benefited from them.

Overall, data services and basic SMS have been growing in the US. While it is difficult to say that growth in certain data services is a result of family plans, we know that they have been instrumental in bringing young people into the mobile arena. A consumer in the youth segment is 85 percent more likely to be an SMS or data-service user than those in the adult segments.

However, the true impact that family plans are having on overall SMS and data-service usage is best shown qualitatively. In research, Ericsson Business Consulting has observed what it refers to as the Youth CMO and CTO phenomena. Young people are acting as the “CMOs and CTOs” within the family – basically reversing the tradition of the parents being the key decisionmakers or “gatekeepers.” Young people are very involved in deciding which phones to purchase, which plans are needed, and which features and add-on services should be selected. After purchase, we find that it is these younger consumers who are introducing SMS and data services to other members of the family and showing them how to use them. One mother remarked in research: “We never used messaging or had a ringtone until our son showed us how to do all of this. Now, we text each other instead of calling.”

It is not inconceivable that young people in family plans could add more than 11 points to SMS penetration and drive a 25-percent increase in browsing-related services over the next two years.

For mobile operators, the implications of data-service usage within family plans and young people acting as the “CMO and



❖ ...Family plans driving mobile service use in US

CTO of the family” are staggering. Channel, promotional, and communication tactics are all affected and may require new approaches – approaches that are more centered on the young and demonstrate how mobile data can be used by the family. One marketing concept that has surfaced is the umbrella concept of “mobile data offering something to everyone in the family.” Born out of the concept of a “day in the life,” this shows how people can use non-voice services to communicate, and how they can incorporate data services into their families’ lifestyles.

Data services will continue to grow and family plans will contribute to this growth because of the young. The key question will be how much the young can continue to influence the actions and lifestyle of the family.

Impact of family plans on US operators

At the highest level, family plans address an important issue for operators: churn. Groups of people linked to a family plan are less likely to churn as a group, as compared with those on individual plans. Churn on family plans is low: nationally, about 1.3 percent, significantly less than the average 2.4 percent on individual plans. However, the true test of this lower churn may come in the next 12 months as the wave of new family plan activations that started about two years ago comes up for renewal. Churn could spike. And given that churn within a family plan involves more than one line, the impact could be significant for some US operators. At the end of the day, how a consumer is billed will not overcome poor coverage, pricing, customer care and new service options. The basics of churn and retention will apply.

Family plans allow operators to add new customers at a much lower cost than individual plans – up to 36 percent lower, according to Yankee Group. But this drop in cost per gross add is debatable, as US operators have been in a “family feud” of late, offering quality, mid-level handsets for USD 49 for the first two, with the next two free – so buy two, get two free. There are even instances of up to four lower-end handsets being offered free on new activations.

On the downside, family plans generate about half the monthly ARPU of individual plans. But, this is not unexpected; many of the “secondary” and “tertiary” users on these plans are the lighter users (Check-in Moms, Safety users, and so on). So, this lower ARPU should not come as a surprise and it would have happened anyway. But it may be the increased mobile-data usage in these plans that

will increase family plan ARPU and the lower churn that will make these plans a little more palatable to operator CFOs.

What’s next: the control element

Ericsson Business Consulting sees the concept of control being the next natural service offering with family plans. Typically, the aspect of control has three components when it comes to family plans:

- **Spending Control** – applying limits on how much a user can spend from allocated minutes, SMS, and so on.
- **Usage Control** – limiting and monitoring what a user can do on a phone.
- **Safety Control** – using the mobile device as a tool to monitor and increase the overall safety of users.

Spending control is the most obvious. As stated earlier, nearly 20 percent of all family plans have an overage penalty assessed each month. Interestingly, operators report that these overages are not usually the same people each month. Generally, if a family plan is constantly over given limits, operators will let consumers “up their plans” to higher packages. The key opportunity for a spending-control service is that it would be invaluable to those family plan consumers who consistently approach monthly limits. It is estimated that 65 percent of family plans come within 15 percent of their upper voice and SMS limits each month. Thus, applying simple math, some sort of spending-control service would be immediately relevant to about a third of mobile phone users in the US.

As data-service usage expands and more young people get their own mobile phones, monitoring and restricting usage will become more important to parents. We have seen usage control on the internet and with television. Mobile phone usage control is the next step.

Last, and potentially the greatest control service for family plans, is safety control. The ability to track a user consistently ranks as a top service that US consumers are interested in.

Given the consumer composition of family plans, mobile control represents the next opportunity for driving revenue from family plans and building further flexibility and reliance on the mobile phone as a critical component of communication and lifestyle. ■



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