

Don't panic over ARPU – we're actually spending more

Falling ARPU does not tell us that there is no growth. In fact, ARPU is falling because there is growth. Much of the pessimism in the market is due to misinterpretation of ARPU. Instead, let's start looking at real users and what they really spend.

IN COUNTRIES WHERE CELLULAR IS MATURE the financial markets normally interpret falling ARPU as another sign that the sector is stuck in a dull ex-growth phase, unable to build returns on its investment in next-generation networks.

The negativity comes from the fact that penetration is over 100 percent and growing only slowly and ARPU was relatively stable but is now dropping.

But before we all give up and go home, let's scratch beneath the surface.

Our research shows that the negative outlook is misplaced and that, where prepaid is significant, multiple connections per person are masking a much healthier growth picture.

The total connections figures reported by operators provide a distorted view because of inactive users, multiple SIM cards and multiple devices per person.

As multiple connections become a feature of the market, they will push ARPU downwards...

Where reported penetration is more than 100 percent, as is the case in many European countries, there is clearly more than one connection per person. We have data for five countries showing a range from 1.75 SIM cards/real user in Italy, around 1.42 SIM cards/real user for Spain and the UK, 1.25 SIM cards/real user in Germany and 1.15 SIM cards/real user in France.

Using these metrics we can estimate that real penetration in Europe is around 25 percent lower than the reported figure, as shown in Figure 1.

Minutes of use per user

Users with multiple SIMs or multiple devices will spread their traffic across those connections. What really matters here is not traffic per connection, but traffic per real user and the trend of that.

We estimate that real MoU per User in Western Europe was 190 minutes per month at the end of 2005, compared to a reported

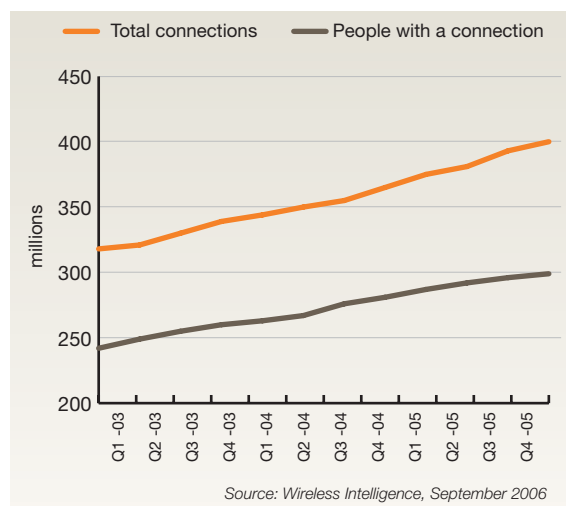


Figure 1: Total connections versus people with a connection, Western Europe

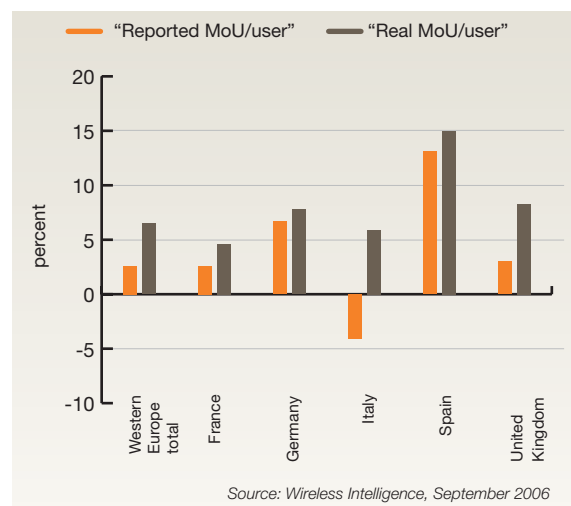


Figure 2: Year-on-year percentage change in MoU/user Q4 2005

the author

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figure of 145 minutes per connection per month. Figure 2 shows that we also estimate that growth of traffic per real user is typically 3–10 percent higher than growth of traffic per connection.

ARPU does not tell the whole truth

Naturally, spreading the traffic across connections translates into spending being spread across those connections, and this has the same effect of distorting ARPU figures.

The spend on second and subsequent connections is likely to be lower than on the primary connection, so that – as multiple connections become a feature of the market – they will push ARPU downwards.

We have analyzed ARPU trends related to market penetration and found that developed cellular markets generally have a fairly stable ARPU between 50–100 percent penetration, but that ARPU falls steadily after that as market penetration rises. See Figure 3.

However, investors should not be fooled – using the same analysis, we find that real users are spending more, as shown in Figure 4.

The growth in real ARPU is typically 3–4 percent higher than growth in reported ARPU, with a bigger gap in countries where prepaid is a high share of the user base, such as Italy and UK.

...but they also present a significant opportunity for growth

We should expect ARPU to fall

Mark Twain is famous for saying, “Rumors of my death have been greatly exaggerated.” This is true for cellular, too.

As a country market moves through 100 percent penetration, reporting that is based only on connections (not people) starts to provide a distorted picture.

It is not that a falling ARPU tells us that there is no growth. Instead, ARPU is falling because there is growth. Up to a point this is a good thing (obviously if there is a price war, ARPU may fall for other reasons, which is not such a good thing).

If mobile network operators want stock markets to assess their businesses better, they need to review the indicators that they use for reporting. It would be useful to report metrics which relate

both to overall connections and to the people using them. Or at least report Average Connections Per User (ACPU), so that others can do the number crunching.

Wireless Intelligence believes that multiple connections per person – if done properly – present a significant opportunity for growth. If we are right, then we should expect ARPU to fall and we should base our interpretation instead on growth of average revenue per *real* user.

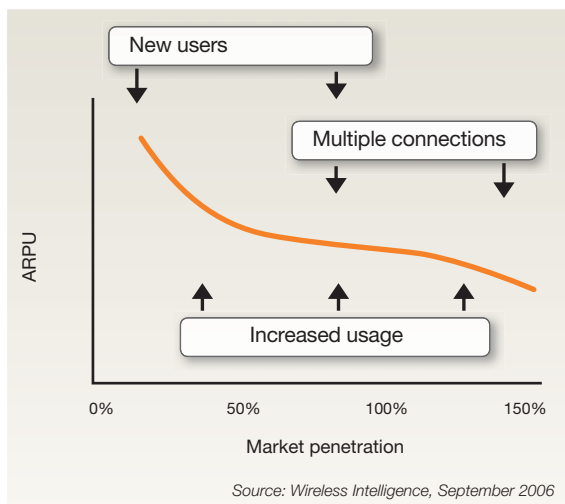


Figure 3: General pattern of ARPU change as penetration increases

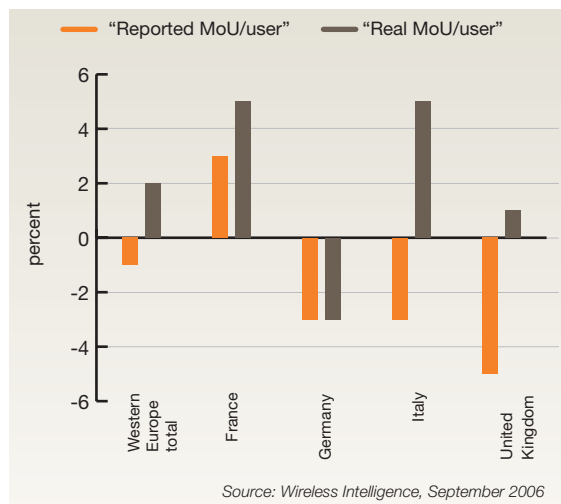


Figure 4: Change in reported and 'real user' average ARPU 2005