

Data wants to be free: so sponsor it

In today's hyper-competitive media landscape, **sponsoring data** can be an effective way for both operators and content providers to increase relevance and reach new markets. However, industry actors should follow **five key recommendations** to make Sponsored Data truly pay off.

“Sponsored Data and Zero-Rating represent unknown territory for most actors and are surrounded by question marks”

► **OVER-THE-TOP (OTT) APPLICATIONS** and content services continue to rise in popularity among consumers. As a result, the relationship between content providers and consumers is becoming stronger, although mobile network operators (MNOs) and network element providers (NEPs) remain important actors in this context. In fact, seamless mobile access to content is a key requirement set by today's consumers, who are increasingly demanding digital content distribution experiences that live up to their expectations.

Standing still is not an option for any actor in the digital content distribution value chain. In order to secure continued consumption growth – especially in a marketplace increasingly defined by mobility – the ICT and media industry will need to redefine its business models, find alternative revenue streams and seize business opportunities in new markets. None of today's players is exempt from this requirement.

Sponsored Data and Zero-Rating are two alternative business models that enable both content providers and MNOs to exploit new opportunities when distributing digital content for mobile end-consumption. However, these concepts represent unknown territory for most actors and are therefore surrounded by question marks. This article explores the concepts of Sponsored Data and Zero-Rating, sets out the associated threats and challenges, and identifies feasibility parameters for these solutions. It also provides examples from both developed and developing markets of how the feasibility of Sponsored Data solutions can be evaluated.

DEFINITION: SPONSORED DATA VERSUS ZERO-RATING

Let's start by defining our terms. In a Sponsored

Data solution, data traffic is sponsored so that a consumer can access, download or stream content without having to pay for the data consumption. The sponsor could be any actor within the digital content distribution value chain that gains from the consumer's consumption of data, and would therefore be willing to pay for this consumption. The sponsoring actor could, for example, be a content provider that would benefit from increased uptake. The solution is typically referred to as Zero-Rating when an MNO is the sponsor [1, 2]. Despite these clear definitions, both media and industry often interpret solutions of this kind as either opposing concepts or, conversely, as a single concept referred to by two names.

WHY SPONSORED DATA?

Figure 1 gives a simplified model of the digital content distribution value chain. To illustrate the value of Sponsored Data solutions for each actor in this value chain, we will look at a case where a content provider is the sponsor.

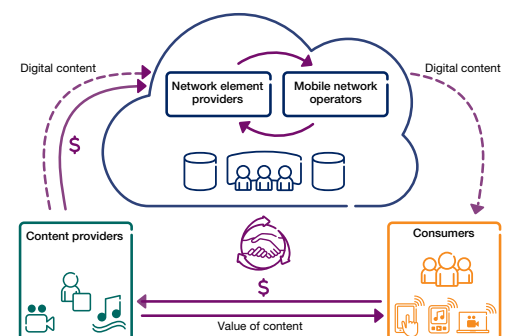


Figure 1: A simplified model of the digital content distribution value chain.

For consumers, the main value of a Sponsored Data solution is obviously to be able to access and use a desirable content service without being charged for the data consumption of that service.

According to Strategy Analytics [1], there are two aspects to Sponsored Data that make it valuable to the *relationship* between consumer and content provider. Firstly, when data is seen by consumers as valuable, bringing data to consumers is equivalent to bringing them value. Secondly, Sponsored Data creates value when data access – or rather lack of access – is otherwise seen as a barrier for consumer engagement. Our research clearly demonstrates both these aspects [3].

Aside from the consumer relationship angle, the principal values that content providers derive from a Sponsored Data solution are increased customer reach and possible associated revenue increases. Circumventing limited data plans boosts the availability of a content service – in fact, this is practically a necessity for data-heavy services in some markets, since the value of a video streaming service, for example, is close to zero if a consumer can only view a few minutes of content before running out of data. In addition, Sponsored Data solutions also enable content providers to take advantage of the channels and extensive customer bases already established by MNOs.

At first sight, the values of Sponsored Data for an MNO are not as clear as for the sponsor. As the value and cost of sponsoring must be optimized for all players, the sponsored data volume cannot be too large or expensive for the sponsor, although the volume still needs to be large enough for the solution to be valuable for the consumer. This equation suggests that the actual data volumes sold through a single Sponsored Data solution will be relatively small. It is therefore debatable if Sponsored Data solutions can be a significant revenue

generator for MNOs – especially if MNOs need to make additional systems investments to support Sponsored Data solutions [1, 2, 3].

However, Zero-Rating and Sponsored Data solutions can still serve a purpose for MNOs. Firstly, they should be seen as a way to drive mobile data consumption growth. When consumers gain access to new services that they otherwise might hesitate to use, they can learn to appreciate these services and become accustomed to increased data consumption. This leads to additional revenue opportunities for the MNO.

Furthermore, even though a Sponsored Data solution in itself might not be a huge revenue generator for the MNO, Sponsored Data solutions nevertheless represent a way to increase their relevancy in the context of OTT applications and content services [1]. The value chain for digital content distribution is complex, with strong correlations and dependencies between actors [4, 5]. Trend analysis shows that the relationship between content providers and consumers is becoming stronger [3]. Given that a Sponsored Data solution will most likely involve an exclusive contract between a content provider and a single MNO in a particular market over a period of time, this gives the MNO the possibility of tying its name closely to the content provider, which can have a positive impact on both brand and market positioning.

For NEPs, on the other hand, there is no direct value to identify, though it should be mentioned that as the NEP is highly dependent on the business of connectivity, the NEP will benefit from supplying technical solutions that enable Sponsored Data solutions.

THREATS AND CHALLENGES

Although Sponsored Data solutions show clear potential, there are of course challenges to consider.

“The viability of Sponsored Data and Zero-Rating solutions is very case-specific”



First of all, Sponsored Data services have been criticized both by politicians and media in relation to net neutrality [6]. The main argument is that Sponsored Data might create an unfair market situation in which larger companies have more capacity to offer services compared with smaller firms that are unable to cover the cost of data [6]. However, it has also been argued that sponsoring is one way for smaller companies to gain customer reach by “buying eyeballs” [1].

Regulators in several countries have limited or even banned Zero-Rating solutions [1]. For example, the Norwegian Post and Telecommunications Authority has claimed that Zero-Rating is in violation of net neutrality [7]. Governments in Chile, the Netherlands, Canada and Slovenia have all taken action to ban specific Sponsored Data or Zero-Rating services, based on possible conflicts with net neutrality [3].

Depending on how net neutrality is defined – and by whom – its full implementation could challenge the feasibility of Sponsored Data or Zero-Rating solutions. A factor of even greater concern is that the mere suggestion of a conflict with net neutrality can become a deal breaker due to social factors – even if the solution in itself does not violate net neutrality [3, 8]. For example, in 2015, India's largest online retailer, Flipkart, backed out of a sponsored or zero-rated business arrangement with a large Indian MNO because social activists considered the agreement to be incompatible with net neutrality, despite the fact that India has no official net neutrality guidelines [8]. The impact of regulatory bodies, media and social factors therefore needs to be considered carefully.

A second challenge lies in the design of the specific solution. The perceived value of a content service differs both between content industries (the type of digital content) as well as within a specific content industry (the type of service). Additionally, the value of free data is considered to be low in markets where internet penetration is high and data plans fairly inexpensive. On the other hand, Sponsored Data solutions are more desirable in markets where data access is limited and expensive for the consumer [1, 3]. It is therefore safe to say that the feasibility for Sponsored Data solutions is very case-specific.

Finally, as with most ICT service and business arrangements, Sponsored Data and Zero-Rating solutions are subject to security concerns. MNOs, content providers and consumers will not trust a Sponsored Data solution if it is unclear who is paying, what is paid for and for what purpose. MNOs risk exposure to fraud if the solution is not predefined in terms of how much data is going to be consumed and who will pay for it. Content providers require reassurance that the data for which they are paying really is the data being consumed for the purpose of their sponsorship. In addition, consumers need to trust that they will not be

charged for the consumption. In this context, well-built solutions based on collaboration across the entire value chain can be a competitive advantage.

FEASIBILITY PARAMETERS FOR SPONSORED DATA AND SUPPORTING FACTORS

As the business feasibility for Sponsored Data solutions is very case-specific, it is hard to determine which content and application services are most suitable for this approach. Nevertheless, by analyzing the prerequisites for Sponsored Data solutions with allowance for differences in both content and market, we can see that viability is dependent on three aspects. Firstly, from the consumer's perspective the *value of free data* needs to be as great as possible. At the same time, to be viable from the sponsor's perspective, the *cost of data volume* needs to be as low as possible, whereas the *value of increased reach* needs to be as high as possible. Although this might seem simple enough, it is in fact a complex equation to balance.

Let's name these three aspects *parameters for feasibility*. What factors could affect these parameters and thereby the feasibility of Sponsored Data? We have identified five supporting factors that affect these parameters, as illustrated in Figure 2. In the following section, we outline each supporting factor and the parameters it affects. However, it is important to note that the supporting factors are interrelated and therefore affect each other as well – to give just one example, the market and type of service will affect the number of users expected.

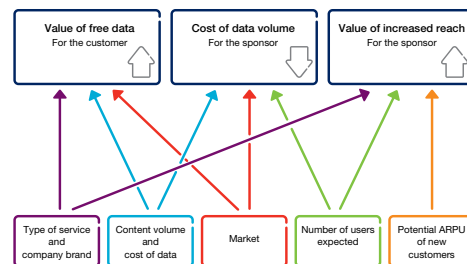


Figure 2: Feasibility parameters for Sponsored Data solutions with corresponding supporting factors [3].

► i.) Type of service and company brand

The type of service directly impacts the *value of free data* parameter. Is it a service that is valuable to the consumer? Is it a service for which the consumer desires mobile access anywhere and anytime? If not, there is little benefit in sponsoring the service.

This supporting factor also affects the *value of increased reach* parameter, since the profitability of Sponsored Data solutions may vary considerably between free and premium services.

In addition, these two parameters are affected by the company brand. A Sponsored Data solution offered by a popular brand will most likely be more valuable to consumers, impacting the

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value of free data. Such a solution could also boost brand value among consumers, which would affect the *value of increased reach*.

► *ii.) Content volume and cost of data*

This supporting factor affects the *value of free data* and the *cost of data volume* parameters. Naturally, a consumer will see greater value in free data the larger the volume. In addition, the more expensive the data, the greater value there is for the consumer. This effect works in reverse from the sponsors' perspective, as large volumes are more costly to sponsor.

► *iii.) Market*

The market where the business case will be implemented determines the market value of a service as well as the market price of data. Therefore, this supporting factor affects the *value of free data* and the *cost of data volume* parameters.

► *iv.) Number of users expected*

Obviously, the number of consumers expected to use a specific Sponsored Data service affects the potential profitability of that solution – more consumers create the potential for higher revenues. However, more consumers also equal greater sponsorship costs. This supporting factor therefore affects the *cost of data volume* and the *value of increased reach* parameters.

► *v.) Potential ARPU of new customers*

This supporting factor affects the *value of increased reach*. The ARPU of a particular service, combined with the estimated number of new users, is a good indicator of the profitability of implementing a Sponsored Data solution. Ideally, the cost of sponsoring should not exceed the expected revenue from gaining new customers.

EVALUATION IN ACTION

To exemplify how the feasibility of Sponsored Data solutions can be evaluated when searching for the most viable business opportunity, we compared three fast-growing industries (m-commerce, music streaming and video streaming) and two contrasting markets (the Nordic region and Africa) [3].

In the Nordic region, the main supporting factors are cost of data and market, since data is easily accessible at a fairly low cost almost everywhere within the region. The *value of free data* feasibility parameter is therefore negatively impacted for all three content industries studied, as most Nordic consumers can afford mobile data plans that support regular consumption of m-commerce, music streaming and video streaming services. In addition, many consumers have both fixed access points for connectivity and access to Wi-Fi networks at home, as well as free Wi-Fi access in many public places. Our findings therefore reveal that the potential for Sponsored

Data solutions in the Nordic region is generally sub-optimal.

On the other hand, greater potential can be found in African markets, especially within the m-commerce industry. Market and cost of data are once again the key supporting parameters. African markets generally have low data penetration, and data is sold in small bundles at fairly expensive prices. Meanwhile, mobile devices are the main access point for connectivity, and Africa's burgeoning middle class is rapidly consuming more. Applying the *value of free data* parameter makes it clear that the value here is high.

When we apply the *cost of data volume* parameter, the picture becomes even clearer. Music and video streaming services are typically data-heavy. Sponsoring these services is more expensive than sponsoring less data-demanding services, such as m-commerce. However, sponsoring data-heavy solutions is also more attractive for the consumer. This suggests that a service representing the golden mean in terms of data volume requirements would be the optimal business case for a Sponsored Data solution.

Indeed, among our studied industries, the content providers most positive towards Sponsored Data and Zero-Rating solutions are found in the music streaming industry. Interviewees went as far as to state that solutions of this kind are vital when launching into new markets. However, our findings indicate that the value of music services in African markets in general is low, and therefore there is smaller potential in sponsoring music services in these markets. M-commerce, on the other hand, is a popular consumer service that also requires only relatively small sponsorship costs.

In summary, our application of the feasibility parameter and supporting factor paradigm to three content industries and two markets shows that the greatest potential for Sponsored Data solutions is found in the m-commerce industry in African markets (or similar). It should, however, be noted that the *value of increased reach* parameter was not considered in this example. This is because two of the relevant supporting factors, namely the number of users expected and the potential ARPU of new customers, are very dependent on the particular content service, while our analysis only covers the industrial perspective. However, the examples discussed nevertheless go a long way to show how our feasibility parameters can be effectively used to evaluate different Sponsored Data business cases.

CONCLUSIONS AND RECOMMENDATIONS

Business models that leverage Sponsored Data can allow MNOs to take advantage of the strengthened relationship between content providers and consumers while securing a new revenue stream. Sponsored Data solutions also support growth in mobile data consumption and can

“Sponsored Data and Zero-Rating solutions are vital when launching music streaming services”

result in a win-win situation for all three parties.

However, the viability of Sponsored Data and Zero-Rating solutions is very case-specific. We therefore make the following five recommendations for industry actors building business cases for Sponsored Data:

- ▶ Be aware of the net neutrality debate and work actively to show that Sponsored Data is not in violation of net neutrality. Target not only regulatory bodies and industry but also the media and general public, as the social factor can become a deal breaker.
- ▶ Understand that the feasibility of specific services is highly dependent on consumer preferences, which vary widely between markets.
- ▶ Keep security top of mind. MNOs, content providers and consumers must all be able to trust in Sponsored Data if this approach is to be successful. Well-built solutions based on collaboration across the entire value chain can be a competitive advantage.
- ▶ Evaluate initial case-specific potential based on the three feasibility parameters of value of data, cost of data and value of increased reach, and their associated five supporting factors.
- ▶ Focus on markets where mobile devices are the main access point for connectivity and where data is fairly expensive for the consumer. How-

ever, the relative immaturity of many of these markets makes it difficult to foresee which content services and solutions will fly. Market expertise and strong industry relationships will be essential for creating successful solutions.

This article is based on extracts from a master's thesis on digital content distribution for mobile consumption. The thesis research was conducted at the Systems & Technology Department of Product Development Unit Packet Core, Ericsson in Gothenburg, Sweden, in cooperation with Chalmers University of Technology in Gothenburg, Sweden. The research focused on the value chain perspective and studied the relationships between content providers, MNOs, consumers and NEPs. Three case studies were conducted in which content providers in the m-commerce, music streaming and video streaming industries were interviewed. In addition, the research compared market perspectives from the Nordic region and Africa. The thesis was completed in spring 2015 and the full-length version will be available online at Chalmers Publications Library in autumn 2015. ●

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