

Growth hacks to increase your customer lifetime value



by **docomo** digital

An NTT DOCOMO Enterprise

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The delicate balance between ARPPU and user growth

For streaming service providers, but also others in the OTT, app and gaming spaces, there's been intense competition, especially since the onset of the COVID-19 pandemic.

What this resulted in is not just the increased popularity and growing user count, but, at the same time, declining average revenue per paying user. This is further exacerbated by the continuing imbalance of income provided by current tariff structures set against the high cost of creating new, unique and exclusive content to keep viewers on board.

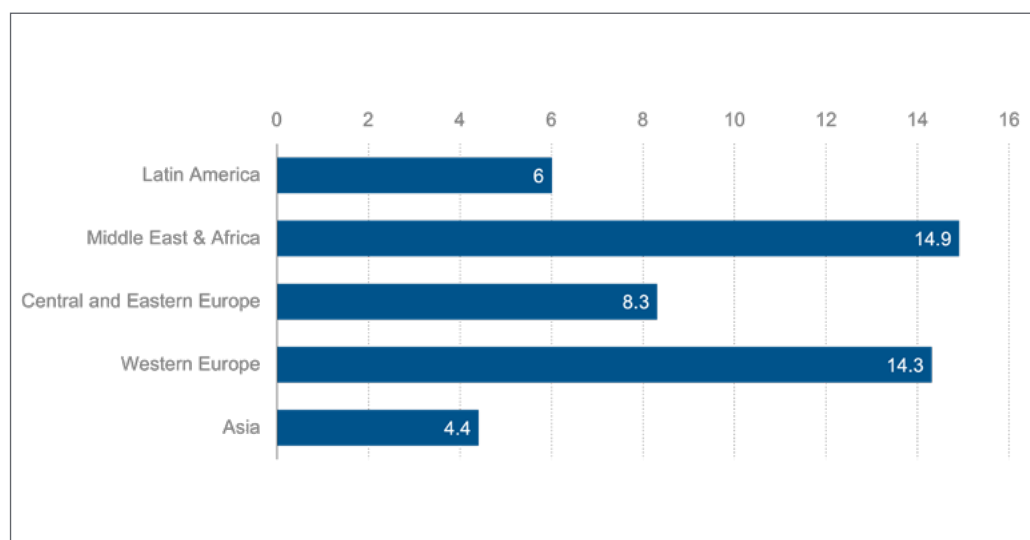
But there are several ways **to increase the average revenue per paying user (ARPPU)**

– and, consequently, **customer lifetime value (LTV)**.

One of them, for sure, is direct carrier billing (DCB) – a popular method to pay for digital purchases on mobile.

In April 2020, the ARPPU with carrier billing in the Middle East and Africa amounted to USD 14.9. Clearly, it's a method used by the **unbanked and underbanked, giving them access to digital payments** (and, obviously, increasing revenue for merchants).

Average revenue per paying user with carrier billing worldwide in 2019, by region (in U.S. dollars)



Source: Statista 2021

So, let's look at increasing the average revenue for paying user and customer lifetime value with a particular focus on digital payments.



What is the average revenue per paying user?

If you're an OTT platform, a gaming app, or a streaming service, or any other service based on **the subscription model or one-off in-app payments (or both)**, ARPPU will be one of the key metrics you need to monitor. Because user growth is one thing, but how much revenue each of the paying users and players brings is another crucial element in this puzzle.

ARRPU (**Average Revenue Per Paying User**) is the **amount a business generates from a paying customer over a specified time frame**. Typically, you're going to measure it over a month or a year. It's calculated using the following basic formula:



$$\text{ARPPU} = \text{Total revenue} / \text{Total number of paying users}$$

ARPPU used to be mainly calculated for apps based on monthly subscriptions, but today, it's also a key factor for games and apps offering one-off in-app payments to help them understand their ROI.

Measuring the average revenue per paying user helps better understand your customer value. This, in turn, allows setting up your pricing to reflect the value you're providing. And most importantly, focusing on **increasing ARPPU will help you improve your customer lifetime value (LTV)**.

As opposed to ARPU, with ARPPU you're taking the non-paying portion of your users out of the picture. This is very important e.g., if you're offering a freemium model – in

which case the majority of your users might actually be non-paying users, so calculating ARPU only might give you a false idea of the customer value.

It will help you understand the characteristics and behavior of your paying customers to be able to attract more of them in the future.

But to interpret either of them correctly, you need to look at it in the larger context of customer acquisition and retention.



How do you calculate customer lifetime value (LTV)?

Your customer LTV is the total dollar amount you're likely to receive from a paying customer over the life of their account with your product. It might sometimes overlap with ARPPU depending on the period you're calculating ARPPU for (some users will churn within that period, which will then constitute their LTV).

Of course, we're using averages here, so for your LTV, you need to know the average revenue a user brings (here, we're specifically focusing on paying users) and your churn rate. The ratio of your ARPPU to your churn rate will give you the lifetime value of your paying customers.

How can you increase customer LTV for your app or service?

DCB as a convenient payment option

One of the ways to increase ARPPU – and, consequently, LTV, is partnering up with a mobile carrier and introducing direct carrier billing as an easy way to pay for both

monthly or annual subscriptions and in-app purchases.

Long-term DCB arrangements bring value to all stakeholders – the merchant, the telco, and the consumer.

DCB – or direct carrier billing – is a payment option whereby the OTT subscription or one-off in-app payment is charged to the customer's monthly phone bill, making the payment process smooth and seamless, with just a few taps.

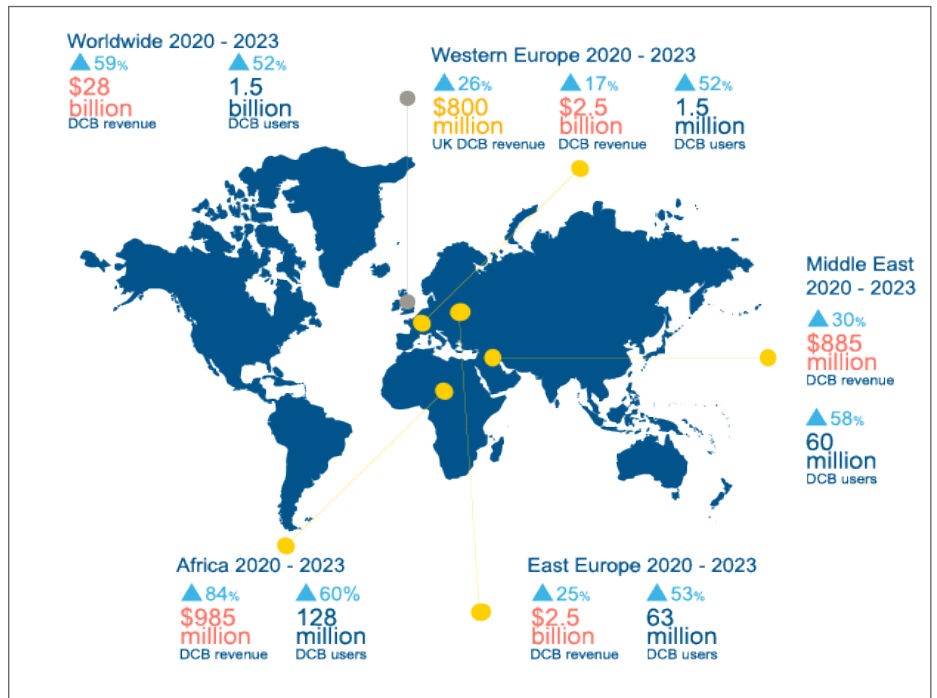
And what's interesting is that increased ARPPU is one of the benefits of enabling DCB for your service. A large part of it is because:

- It lets you leverage the telco's promotional channels and its audience.
- It lets you expand to unbanked and underbanked markets where smartphone adoption is much higher than the adoption of credit cards.
- It makes the payment process itself more accessible and minimizes dropouts at checkout.
- With bundles, it helps cultivate loyalty and higher lifetime value as a result.

Here's a breakdown of DCB users and DCB revenue as projected in the next couple of years.

Service bundling

Another way to increase your revenue per paying user is creating service bundles with the mobile carrier you're partnering with. It's an effective tactic benefiting all sides of the equation – the merchant, the telco, and the consumer, and results in overall revenue growth.

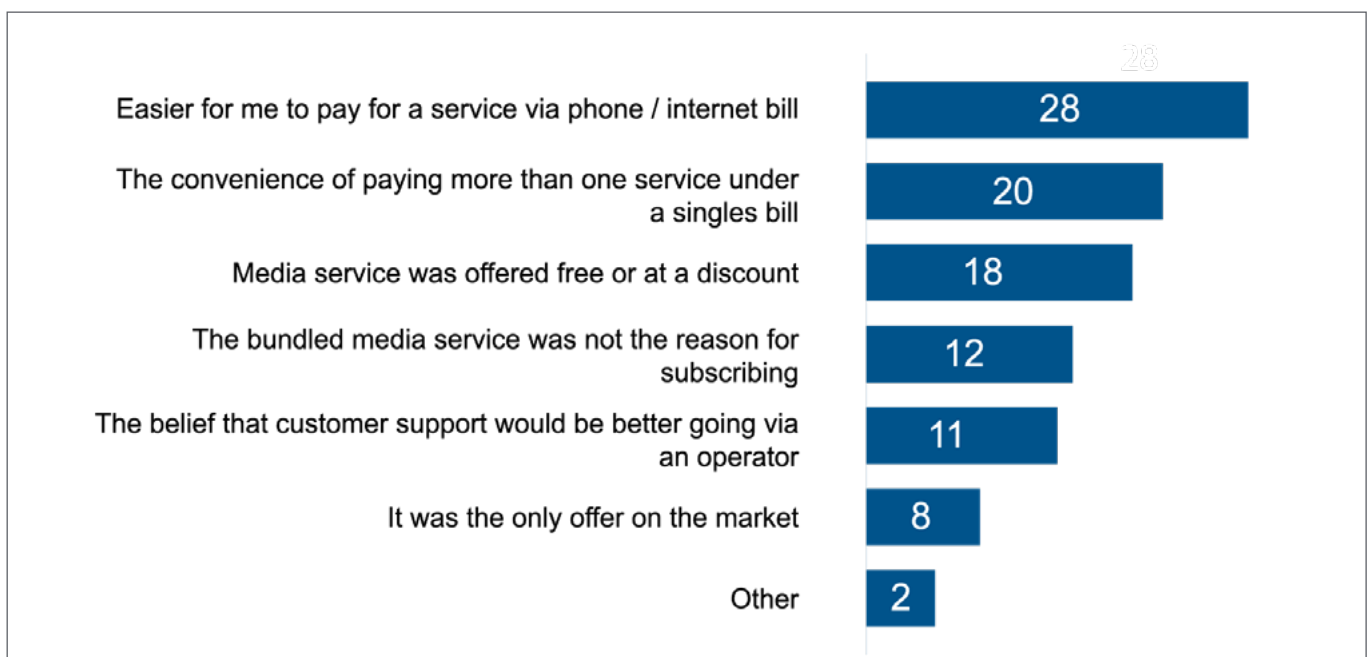


Source: Telemedia - Mobile first mentality drives global growth for direct carrier billing study finds.

A survey conducted by Ovum at the end of 2019 covering the markets of India, Australia, Singapore, Thailand, and the Philippines showed that bundled media offerings led to higher consumer spending on mobile or broadband subscriptions.

42% of respondents said the bundled service was why they were more willing to spend more on their telco subscriptions.

Reasons for purchasing telco plan with bundled OTT media service (% of respondents)

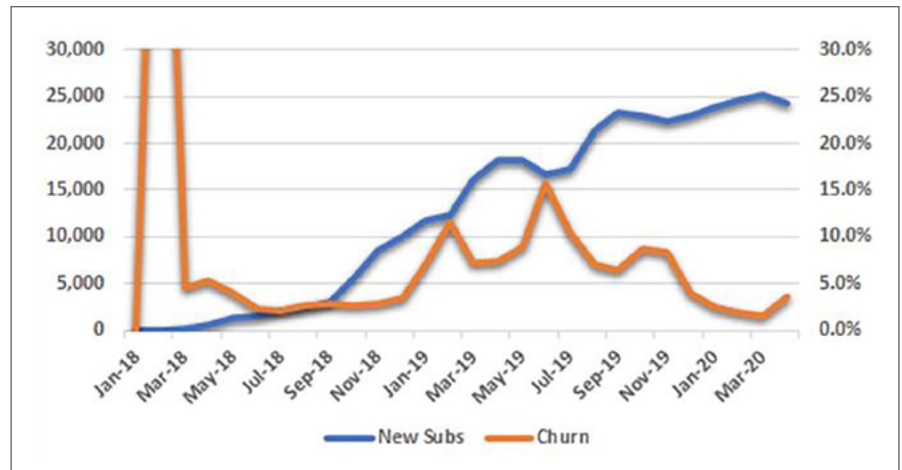


Source: Ovum OTT market study 2019-20

What's more, bundling your service with a telco lets you leverage the sticky relationship subscribers have with their mobile carrier. This makes it an excellent tool for increasing retention rates, reducing churn, and positively impacting the overall customer lifetime value.

An example can be an app in the cybersecurity space bundling their services with a leading Australian mobile carrier. As seen in the chart, the bundle brought an uptick in new subscriptions for the app and also benefitted the lifetime value by reducing the churn.

Bundling Real Case Example



- Expand your content distribution and break into new markets.

Targeting the telco audience

Another key thing in increasing ARRPU – and LTV – is leveraging the opportunity to co-market your services along with the mobile carrier and reaching their audience much more easily and effectively.

A telco's large subscriber base makes them one best distribution partners available. It gives merchants a chance to:

- Reach users with spending history, increasing the number of paying users, also through online marketing to lookalike audiences.
- Get more paid in-app conversions
- Reach a wider audience using smaller budgets, thus increasing your marketing ROI.

Cross-promotion, price subsidization by the mobile carrier and network quality of service guarantees are also benefits influencing paying user growth and often cited by merchants. They also gain access to robust user data and analytics, as well as integrated billing mechanisms to boost customer retention rates.

Given that every region and country can be different, having a deep understanding of the local market is essential when it comes to mobile commerce. Through leveraging a telco's global footprint, digital services providers are also better positioned to develop localised strategies for each market segment.

With so much competition and over 6000 new applications being added to app stores every day, marketing to certain demographics and consumers who already have a relationship with a mobile carrier through the MNO's channels becomes even more potent.



How to partner up with the right telco

To make sure you're making the most of your opportunities to increase ARPPU via bundling, DCB, and app store integration, work with a trusted direct carrier billing provider.

DOCOMO Digital can connect you with a mobile carrier and help your service scale, including:

- Driving consumer awareness with co-marketing campaigns
- Boosting acquisition using innovative business models
- KYC and bad debt management
- Increasing customer lifetime value
- Staying abreast of local regulations and making sure you're always compliant



ABOUT US

DOCOMO Digital is the international payments business of NTT DOCOMO. We partner with carriers, merchants, OTT services, app stores and payment providers in both developed and emerging markets around the world.

We solve the challenges of customer acquisition and retention, regulation, and complexity for our partners with alternative payment methods such as direct carrier billing and digital wallets. Our robust managed services platform and coverage across carriers and the most locally relevant payment methods enable faster time-to-market, especially for streaming, gaming, eCommerce, and productivity application providers.

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