

CROSSING THE CHASM: MOBILE CARRIERS ACCELERATE DIGITAL SERVICES PLAY

TELCO PARTNERSHIPS AND NEXT
GENERATION BUNDLES



by **docomo** digital



Telcos' traditional revenue sources have taken a hit over the last decade. With the introduction of over-the-top (OTT) communication platforms such as WhatsApp and WeChat, consumers pivoted to what is not only cheaper but also, arguably, more reliable. Growth in voice, SMS and international roaming revenues—the mainstay of telcos thus far—has stalled. Telcos need to rethink what they offer to the consumer to remain profitable.

Convergence is an obvious route to ensure relevance. And telco bundling is one avenue. Telcos are aggressively partnering with various digital service providers such as on-demand video streaming companies, music, gaming and utility apps to provide bundled services of voice and SMS along with these digital services. This has proved a winning strategy for telcos, merchants and consumers.

Bundling helps enhance engagement, prevent customer churn, drive loyalty and generate higher customer lifetime value for telcos. Bundles give form to otherwise often amorphous partnerships between digital content or service providers. They help align interests between telcos and the service providers. They allow each party to bring its

key strengths to the table—be it innovative content, superior marketing abilities, market reach, demographic reach—to create win-win outcomes for both parties.

In recent years, telcos have increasingly partnered with other digital service providers to offer bundles, helping grow revenue for both the digital service provider and the telco, and bringing added value to the consumer – for example, a telco offering a Netflix subscription free for a year with its mobile plan to customers. This helps bring in new customers and retain old customers. Besides, it also results in existing customers likely consuming a lot more data.

Bundling, both in the form of hard bundles or soft bundles, provides telcos with ample revenue opportunities and scope to push the innovation envelope further in terms of adding new dimensions to a partnership. Direct carrier billing (DCB) helps drive bundles.

Omdia, a research firm, projects carrier billing revenue to grow at a compounded annual rate of 6.7% from \$52.4 billion in 2020 to \$77.4 billion in 2025, with growth driven by app stores, gaming and video and audio streaming.¹

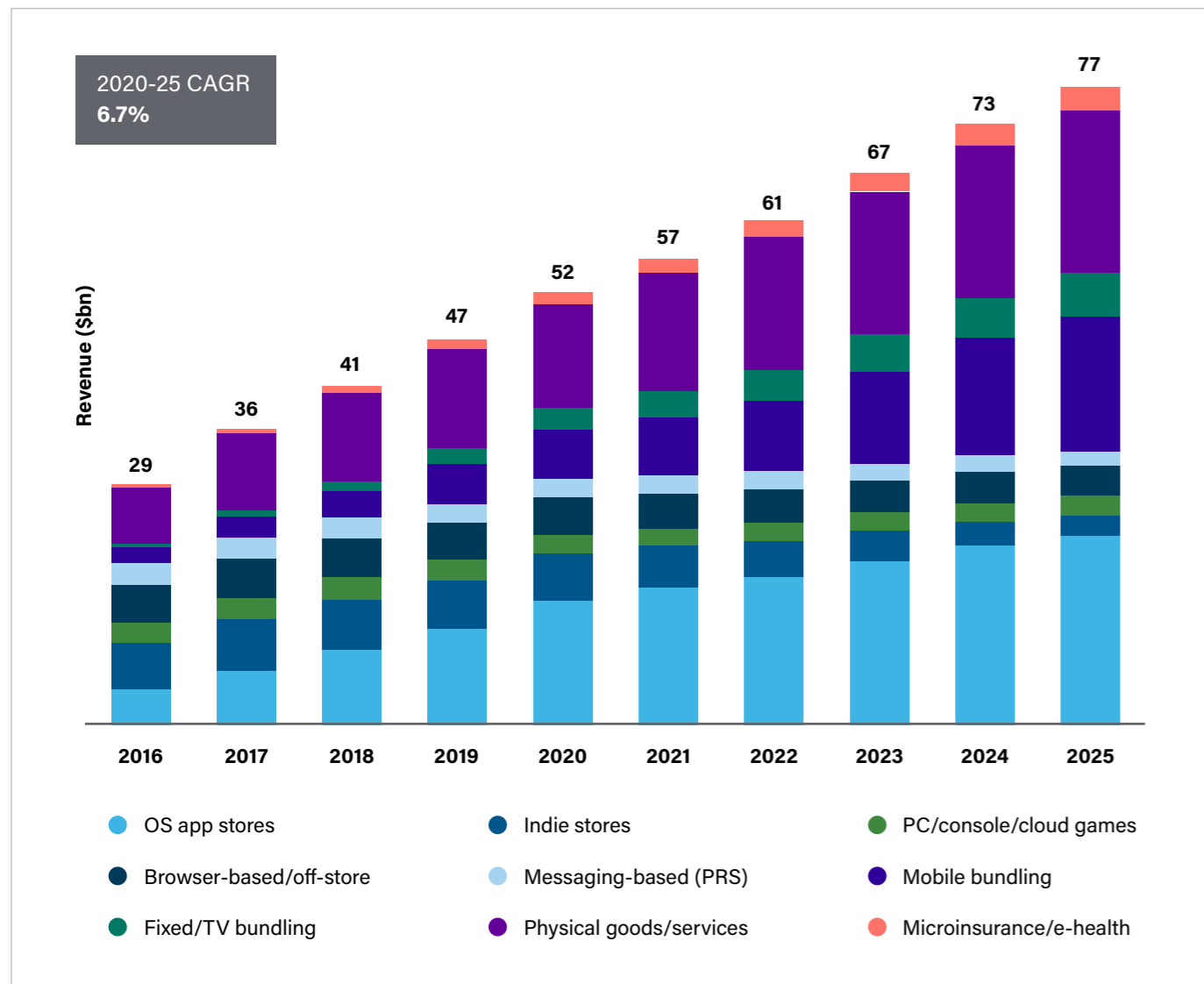
“ I think for the foreseeable future, streaming is going to be on the radar; it's going to be available in the marketplace, and you're going to see an increasing number of competitors. Strategic partnerships between telcos and content companies, therefore, will be a win-win-win situation – for telcos, content companies and consumers.”



Jeff Kagan
independent wireless, telecom and technology
industry analyst, consultant and bestselling author

¹ Omdia. Global Carrier-Billing Forecast Report –2020–25. Available online at: <https://omdia.tech.informa.com/OM016882/Global-Carrier-Billing-Forecast-Report--202025>

Exhibit 1: Global carrier billing revenue, by segment, 2016-25



Source: Omdia's global carrier-billing forecast: 2020-25

Through the pandemic, DCB revenues spiked in transaction volumes as existing users bought more online games and streaming services, but most importantly, as a raft of new users discovered the convenience of carrier billing for the first time.

DOCOMO Digital observed increased purchase volumes of between 5% and 30% depending on the country and the telco, and an increase of over 10% in the number of users globally, driven by robust growth in Asia and Latin America.

Among the most common form of bundles are those between OTT media companies and telcos. OTT media consumption spiked due to the pandemic but the trend is unlikely to get reversed, and bundling with OTT providers has been a key strategy for many telcos around the world. The global OTT market size was valued at \$121.61 billion in 2019, and is projected to reach \$1,039 billion by 2027, growing at a CAGR of 29.4% from 2020 to 2027.²

These forecasts are likely conservative given that OTT consumption saw a 134% spike in the wake of COVID-19 alone.³ Meanwhile, there has been a surge in the use of OTT communication tools as well. Spain's Telefonica, for instance, reported increases of 50% in mobile data traffic as a result of these factors. Partnerships enable revenue growth by encouraging customer acquisition, retention and greater data usage. As telcos increasingly seek to provide beyond core offerings and incorporate elements of payments, DCB helps facilitate partnerships and multi-party integration and foster collaboration among third-party sellers. More importantly, it helps generate wider and deeper data-sets, an invaluable asset for telcos.⁴

OTT has made possible what traditional media has failed to do, by providing large databases of video content inexpensively, with viewing capabilities across multiple connected devices. Almost everybody seems hooked, with telcos, channel producers and technology giants creating their own OTT platforms to benefit from these

shifts being witnessed in the market. In fact, investing in OTT partnerships provide operators a compelling alternative to consumers' cord-cutting.

Telcos and OTT platforms share a symbiotic relationship. Telcos facilitate content delivery to the end-user while OTT platforms have the content that fuels data consumption.

Just as OTT consumption saw unprecedented gains in 2020, so too did mobile gaming. Consequently, the app ecosystem received a huge fillip. Total app downloads reached 218 billion in 2020, up from 204 billion in 2019.⁵ Pandemic-led lockdowns sparked a surge in the number of gamers worldwide. Of the total apps downloaded, almost a third were mobile game downloads, numbering 80 billion. This marked an 18% year-on-year growth. Mobile gamers, meanwhile, collectively spent \$100 billion in 2020 – with advertisers entering the space and spending \$240 billion.⁶ Gaming provides another innovative partnership opportunities for telcos.

"Some of the things that we are pursuing is trying to increase the proportion of bundled products," says Mariano Martinez, Director of Partnerships at Telefonica Group. Telefonica is doing much more bundling, he says, which "is good because that generates better loyalty in our customers and reduces churn".

It is a common message from telcos globally.

Mr Martinez adds that OTT is an important area for the company, particularly messaging platforms such as WhatsApp and other media services such as Netflix and Spotify. These result in both direct income for the company as well as increased data usage. Additionally, these provide Telefonica the option to partner with OTT services and use its ability as a reseller.

For all of this to work seamlessly, many telcos are employing the use of DCB. Payments are integral to any partnership or bundle, and convenience is important, given payments often need to be made frequently and in small amounts. Friction associated with micro-transactions is a major inconvenience for gaming enthusiasts, for instance. DCB eliminates such pain points, resulting in more user stickiness (and greater revenue).

"I think DCB is a very convenient payment method for digital content," Mr Martinez says. It is therefore no surprise that mobile network operators' revenues via DCB will reach \$66 billion by 2025, growing by 68%, while SMS revenue will only contribute \$37 billion, declining by 44%.⁷

In markets where credit card payment is unavailable to the average OTT subscriber, DCB allows users to pay OTT subscription fees as part of their monthly mobile bills. OTT providers are leveraging telcos' networks to reach new customers who would otherwise be unable to sign up to their services due to payment difficulties.⁸ There is merit to this argument, given there are an estimated 6.8 billion active mobile phone accounts today, as compared with 2.15 billion credit card accounts.⁹

"DCB is not just a direct monetisation element, but it's also a key enabler to extend the monetisation opportunity into new categories," says Francesco Zampini, Director of Devices and Digital Products and Services at CKH Innovations (Hutch Group).

² Allied Market Research. Over-the-top Market by Component, Device Type, Content Type, Revenue Model, User Type, and End User: Global Opportunity Analysis and Industry Forecast, 2020-2027. Available online at: <https://www.alliedmarketresearch.com/over-the-top-services-market>

³ SG Analytics. 134% rise in content consumption, impact of COVID-19 on OTT platforms. Available online at: <https://us.sganalytics.com/blog/americans-consumed-50000-yrs-of-content-within-a-day-impact-of-covid-19-on-ott-vod-streaming-industry/>

⁴ GSMA Intelligence. Operators in the digital era: seeking new growth beyond connectivity.

⁵ Statista. Number of mobile app downloads worldwide from 2016 to 2020 (in billions). Available online at: <https://www.statista.com/statistics/271644/worldwide-free-and-paid-mobile-app-store-downloads/>

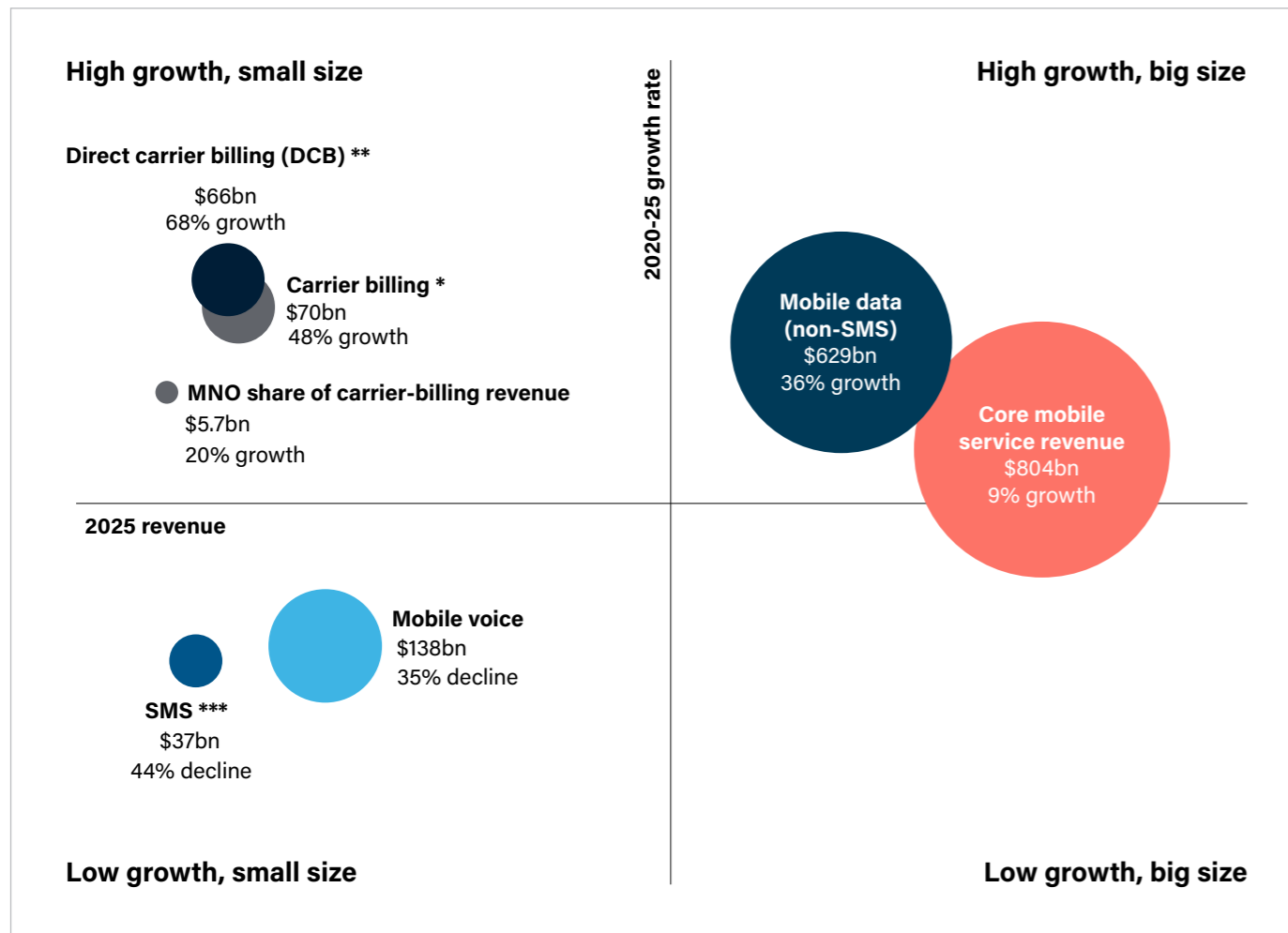
⁶ Udonis. 141 Mobile Gaming Statistics for 2021 That Will Blow Your Mind. Available online at: <https://www.blog.udonis.co/mobile-marketing/mobile-games/mobile-gaming-statistics>

⁷ Omdia. Global Carrier-Billing Forecast Report –2020–25. Available online at: <https://omdia.tech.informa.com/OM016882/Global-Carrier-Billing-Forecast-Report--202025>

⁸ S&P Global Market Intelligence. Asia OTT Leaders Continue to Expand Partnerships with Telcos. Available online at: <https://www.spglobal.com/marketintelligence/en/news-insights/blog/asia-ott-leaders-continue-to-expand-partnerships-with-telcos>

⁹ Ryder Systems. Direct carrier billing (DCB) – Transforming the telco industry. Available online at: <https://www.rydersystems.com/direct-carrier-billing-dcb-transforming-the-telco-industry/>

Exhibit 2: Carrier billing revenue overtakes SMS revenue and outpaces mobile data revenue



Source: Omdia's Global Carrier-Billing Forecast: 2020-25 and Mobile Subscription and Revenue Forecast: 2020-25

“ Offering DCB allows telcos to accelerate their transition to move beyond connectivity. There is a clear opportunity here for telcos to leverage on trust, on the position that we have in our markets, and to be a credible player in new categories.



Francesco Zampini
 Director of Devices and Digital Products & Services
 CK Hutchison Group



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DCB is also becoming a favoured mode of transaction for merchants. A survey by DOCOMO Digital revealed that a quarter of merchants have already introduced DCB or other advanced payment plans in 2020 and around 28% were planning to launch it in 2021.¹⁰

Bundling opens reselling opportunities for telcos and allows them to enter more strategic areas, says Mr Martinez, such as its partnership with Netflix. Telefonica has integrated Netflix's service into its TV and video platforms in Europe and Latin America, offering its customers a wider range of content. "I think it's very relevant for us now with collaborations with OTT media companies," Mr Martinez adds.

Liberty Global, a large US telco company, has made some strategic acquisitions and investments in sports and entertainment companies such as Formula E, Lionsgate and Ziggo Sport. It has even partnered with streaming companies such as Netflix and Amazon to bring exclusive TV content for its TV users. This is in addition to investments in technology to bring TV services via their apps that can be viewed on any device from anywhere and anytime.¹¹ And all these integrated services can be paid for through phone bills.

Pandemic or not, the consumption of digital services will increase and there are many factors contributing to this change in consumption behaviour.

In the coming days, we are likely to see further developments in the telco bundling space, owing to factors such as 5G and the entry of innovative OTT service providers in the market. Additionally, the mobile payments space is also being enhanced by technological and regulatory developments in the fintech space. The concept of a telco is being revolutionised, and going forward, bundled offerings will not only enhance the revenue diversification strategy for telcos but could prove to be the differentiating factor when a customer chooses which telco to sign up with.

¹⁰ DOCOMO Digital. Direct Carrier Billing Opportunities for Merchants amid the Pandemic. Available online at: https://go.docomodigital.com/rs/054-WXB-933/images/Whitepaper_Direct_Carrier_Billing_Opportunity_for_Merchants.pdf

¹¹ Liberty Global. Products. Available online at: <https://www.libertyglobal.com/about/products/>



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 for 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. With teams based in 15 countries, we enable our partners to grow their digital services revenues while enhancing the customer experience for their users. 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, e-commerce and productivity application providers.

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