

Figure 2.8: Global net* annual mobile prepaid subscription growth by region, 4Q06 vs 4Q07 and 1Q08 vs 1Q07

Growth (%)	4Q07/4Q06	1Q08/1Q07
Africa	42.97	40.22
Asia Pacific	34.90	34.04
East Europe	15.42	13.84
Latin America	24.83	23.70
Middle East	38.16	35.85
North America	16.95	11.33
West Europe	6.69	3.56
Total	27.77	26.42

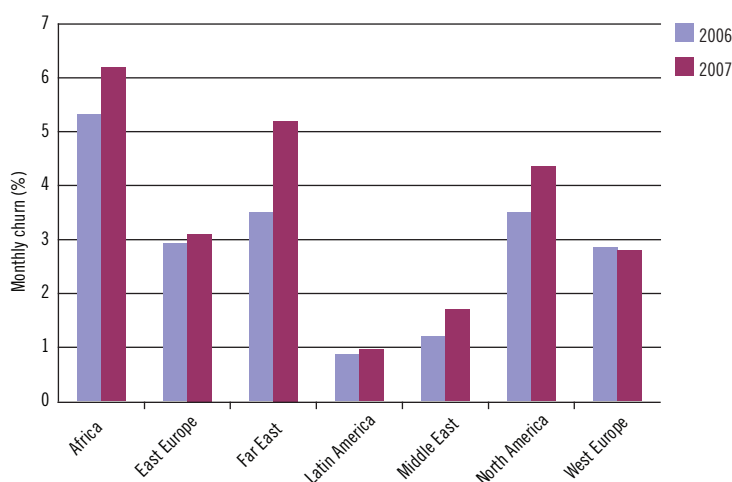
*Note: *net of WCDMA (i.e. non-WCDMA)*

Source: Informa Telecoms & Media WCIS, June 2008

Mobile prepaid churn

Prepaid churn rates

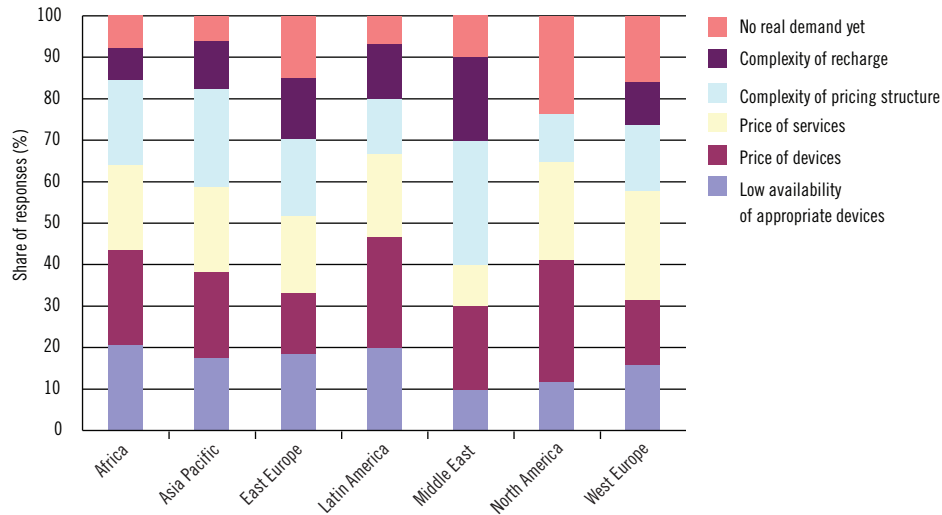
Many operators do not report prepaid churn rates as separate from their blended churn rates. However, we were able to make some assumptions about the evolution of mobile prepaid churn from 2006-2007 by combining the Informa Telecoms & Media WCIS numbers with additional information obtained from the operators and a summary of average monthly prepaid churn rates by region in 2006 and 2007 was generated: prepaid churn increased during 2007 in all regions except West Europe; Africa experienced the highest monthly prepaid churn rates in 2007, at around 6.2%, and churn also increased in the Far East to around 5.2%.

Figure 2.9: Global average mobile prepaid monthly churn rates by region, 2006-2007

Source: Informa Telecoms & Media WCIS and estimates

Churn rates are higher among prepaid customers than among contract customers: 31% of the Industry Survey respondents believed that prepaid churn is less than or equal to postpaid churn, while 42% believed that prepaid churn is two or three times contract churn.

Figure 2.22: Global mobile barriers to adoption of prepaid non-voice services by region, 2008



Question: What are the barriers to prepaid mobile data adoption in your market?

Notes: Respondents may tick more than one option. Graph shows share of responses for those ranking the options either 'extremely important' or 'very important'.

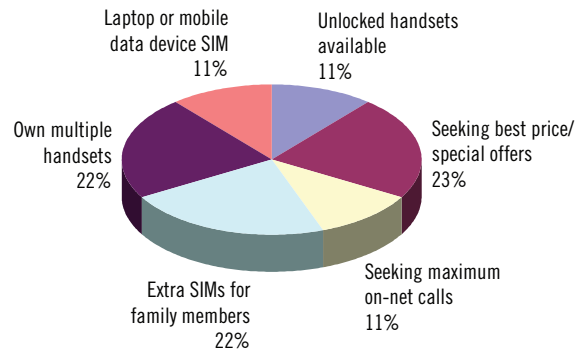
Source: Informa Telecoms & Media's Global Mobile Prepaid Industry Survey, June 2008

A further barrier to adoption of prepaid mobile data applications (apart from the cost) is thought to be the difficulty of setting up and accessing applications such as e-mail on handsets. This is a particular problem in developing markets, where technical knowledge among very-low-income users is limited due to lower education standards. One approach (adopted by T-Mobile in Germany, for example) is to pre-load non-voice applications onto the handset to make it easier for customers to access them. This could help the development of mobile e-mail and other non-voice applications in prepaid markets, particularly in developing countries. The emergence of user-friendly devices such as the iPhone, where applications are already set up via the user interface, and of technologies enabling operators to format devices remotely on behalf of customers, will also contribute to the accessibility of mobile data applications to prepaid customers.

A further area that is considered a barrier to adoption in some regions is the complexity of the charging process for prepaid mobile data applications. There is still much debate in the industry over the tariff structure for mobile data services in general, and the mechanism for deductions from prepaid credit varies considerably by region. The Industry Survey respondents were asked to indicate the availability of different prepaid mobile data charging mechanisms in their countries/markets. In general, the most frequent charging mechanism available for prepaid mobile data in 2008 seems to be deducting from existing prepaid credit on a per-event or per-MB basis. Add-ons, often in the form of mobile data bundles for specific applications (such as music) are already widespread in Asia Pacific and will become more widespread in Africa and in other regions.

The respondents to the Industry Survey indicated that the most common drivers of multi-SIM ownership across the Middle East as a whole were price-hunter behaviour (primarily by low-income customers), multiple handset ownership and extra SIMs for family members. Laptop/data SIMs are not yet a significant driver of prepaid multi-SIM ownership, although they are expected to account for an increased proportion of SIMs during the forecast period as WCDMA networks expand.

Figure 7.7: Middle East, drivers for multi-SIM ownership, 2008



Notes: Respondents may tick more than one option. Graph shows share of responses for those ranking the options either 'extremely important' or 'very important'.

Source: Informa Telecoms & Media's Global Mobile Prepaid Industry Survey, June 2008

Revenues and ARPU

Prepaid revenue in the Middle East was US\$23.3 billion in 2007.

Annual prepaid ARPU represented approximately 1.3% of GDP (PPP) in the Middle East during 2007. Across the region as a whole, prepaid ARPU stood at around US\$15.83 at the end of 2007.

Prepaid ARPU levels are higher in the Gulf Cooperation Council countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) at around US\$40, than in the other countries of the Middle East (such as Jordan and Iraq), where they are around US\$15-20. This reflects the higher per capita GDP in the GCC countries, and also the availability of a wide range of tariff options and value-added services in those countries, which stimulate additional spending. Turkey had the lowest ARPU levels in this region in both 2006 and 2007, and also the largest number of prepaid subscriptions, and this skews the calculation of mean annual ARPU.

Overall, erosion of prepaid ARPU does not yet appear to be a major issue for operators in this region; 60% of the respondents to the Industry Survey in this region indicated that prepaid ARPU was declining at less than 5% per year. This is largely due to increased spending by higher-ARPU customers offsetting the expansion of the prepaid customer base into lower-income segments, as well as improved customer retention and loyalty activities in higher-ARPU segments that are boosting customer lifetime value.

- New prepaid segments are emerging that will enable further growth. For example, some operators are offering satellite prepaid plans to professional users in developing markets in this region where mobile coverage is an issue. Since providing satellite coverage is expensive, this type of service is beyond the reach of most prepaid consumers, but is an invaluable service for professional customers and can be marketed as a prepaid add-on to an existing postpaid contract.
- Many operators have already begun to diversify into non-mobile applications, such as international mobile money remittances and money transfer, that will stimulate usage among certain prepaid customer segments and generate a complementary revenue stream.
- The expansion of WCDMA, HSPA and WiMAX networks provides an opportunity to up-sell existing prepaid customers to mobile broadband services that are tailored to the behavioral drivers of certain market segments.
- The implementation of lower and more transparent interconnection rates, especially for international roaming but also for national roaming, would stimulate roaming usage among prepaid customers, particularly in the professional segment.

For low-income target customers, growth will be driven by the following factors:

- Increasing price-based competition as operators attempt to buy share, with a proliferation of usage-based promotions to stimulate usage that offsets the lower ARPU associated with very-low-income customers.
- Non-mobile applications, such as money transfer and m-banking, could stimulate growth among customers who view the mobile device as more than just a communications tool. Other potential growth applications include virtual marketplaces.
- An increase in the availability of prepaid on-net calling plans in this region has the potential to stimulate both usage and customer growth, as well as contributing to churn management.
- New entrants in domestic markets, including international competitors and MVNOs, should bring more innovation into the regional prepaid market and stimulate further growth, particularly at the low-end.

Challenges

While there are plenty of opportunities for continued growth across the Middle East, there are many challenges associated with realising these opportunities. These include:

- Many Middle Eastern countries already have three or even four operators, leading to hyper-competition. The high cost of acquiring the scarce new licenses is leading to very