Introduction

Mobile operators face an existential crisis: how to differentiate their brands and make their offers stand out in a marketplace that is increasingly crowded with similar plans. There are several factors that exacerbate this problem:

- The rate of new plan introductions is accelerating. In some markets, such as Brazil, it is almost real time. As soon as an innovative plan is offered, several other operators release identical versions.
- Mobile consumers show ever increasing reticence to commit to long-term contracts or high-value plans which increases the likelihood of churn and decreases profitability.
- The overall volume of plans continues to grow making it more and more difficult for consumers to confidently make the best choice for their situation. Relying on the operators' retail sales people for guidance is not the most reassuring approach.
- Operators' services are becoming commodities due to the continual introduction and attractiveness of OTT services and the fierce and visible nature of competition in this market.
- In an attempt to overcome this trend towards commodity-like status and increase plans' attractiveness, operators are adding more and more features and extra value elements to their plans making it even harder for consumers to compare and choose.

Traditional strategies for dealing with this problem include reducing prices, investing in network coverage and speed, increasing advertising and promotion spends and increasing service inclusions to make plans more attractive. For example, in the US Verizon paid $1B for the rights to carry live NFL football games. These strategies have one thing in common; they cost a great deal and when everyone else is doing the same thing the returns can be meager.

Consumer Value Metrics and Awards

A differentiation strategy that is used in other consumer markets such as automotive and electronics, is recognition of the value of products by a trusted third party. Two major providers of this type of recognition are J.D. Power and the IIHS (Insurance Institute for Highway Safety) and its companion organization HLDI (Highway Loss Data Institute). J.D. Power conducts surveys to determine product and service factors of most value to consumers and announces the results such as "X ranks second among all nameplates in the automotive Industry in its 2014 Initial Quality Study (IQS)." The J.D. Power website states "our ratings aid consumers in making more informed purchase decisions." The Highway Loss Data Institute (HLDI) conducts scientific studies of insurance data representing the human and economic losses resulting from the ownership and operation of different types of vehicles and publishes insurance loss results by vehicle make and model.

Companies receiving high scores from J.D. Power and best safety results from HLDI use this to promote the value of their products. J.D. Power indicates that research results show approximately 70% of consumers said that a J.D. Power award could positively change their willingness to consider recipients' products. Other organizations, in the US alone, which produce similar recognition awards for consumer products are Consumer Reports, Consumer Choice Awards, Consumer Wine Awards, Consumer Goods Technology, Readers' Choice Awards, Angie's List Super Service Awards and American Consumer Council's Friends of the Consumer Awards, to name a few.

While these organizations are willing to describe their methodology, consumers view these awards and selections as holistic. That is, they are not interested in questioning the approach or the details. They like the idea of having a reliable guide to help them make better selections and take it on faith that these are reasonably accurate (or some watchdog organization would have already uncovered problems). Such a guide in the world of mobility could also help customers bypass detailed evaluations and comparisons of such factors as speed, coverage, capacity and cost in order to feel comfortable they are making the best selection.

Tarifica has designed a similar guide for consumers (and operators) by which they can easily determine the best mobile plans on the market. This guide is designed to strengthen operators' brands, reduce churn and entice new customers. It is called the Tarifica Score™.

What is the Tarifica Score?

The Tarifica Score is a proprietary algorithm that computes the aggregate value of every feature of a mobile plan (including usage allotments, geographic coverage, data speeds, value added features such as premium content or free roaming and promotional elements) and divides this by its total charges to calculate its unit cost. The result is a numeric measure of its consumer value relative to all other offers in the same country or region. Scores are scaled to range from 0 (worst) to 100 (best).

This formula was developed through a rigorous process which used offers from many operators in many countries to validate its global applicability. Service volumes (voice, data, text) are weighted based on interviews with regulators, operators and industry media and Tarifica's years of experience studying mobile plans and customer preferences. Customer surveys were used to validate assumptions. Every month, Tarifica's analysts apply this formula to every mobile plan and promotion available in subscribers' countries, producing a ranking of plans by their consumer values. These rankings are delivered in two plan categories, "With Phone" and "SIM Only," which are each further subdivided into five price segments, creating a total of ten groups. Through this process, users can instantly identify both the "Top Value" plan in each price category and the operator which consistently provides the best value.

As discussed in this paper, this algorithm has applications for optimizing the consumer purchasing process as well as conducting both regulatory and operator specific market analyses. However, the most popular use of these rankings is in MNO branding and marketing. The Tarifica Score provides operators a direct means with which to persuade potential subscribers that a given plan is their best choice.

Application in Churn Reduction and Customer Acquisition

When purchasing mobile plans, consumers often report a feeling of insecurity. This stems from a lack of understanding of the specifics of mobile services, difficulty comparing all the alternatives, the length of the commitment (which is often substantial) and the recognition that they are often accepting the recommendations of a biased seller.

Consumers involved in purchasing, renewing or changing mobile service, find the inherently abstract and multifaceted nature of the product to be daunting. Mobile plans are complicated and frequently misunderstood both in terms of the services provided and their associated costs. Mobile plans costs—activations charges, device costs, monthly costs, add-ons and excess usage fees—are viewed (like bank fees) as insidious ways to take their money and often as ambiguous or in some cases, totally hidden. A frequent customer complaint and oft used explanation of high-churn rates is so called “bill shock.”

A plan’s included services can be equally opaque. Navigating through usage restrictions—on net, all net, peak, off peak—is a challenge, as is differentiating among the operators’ network attributes. While most consumers understand the importance of a strong network, fast download speeds and widespread coverage, they rarely have direct access to these metrics. Even if a customer took the time to research these services the results are unlikely to be useful without further contextualization.

As an independent guide, the Tarifica Score helps operators move potential customers over these hurdles—it takes into account each element of every mobile plan, saving customers the effort. The Tarifica Score distills all of the numerous pricing and service characteristics of the hundreds of mobile plans in a given market into a single value score which is simple, intuitive and easy to understand. All that is left for the consumer to consider is how their usage matches the plan’s allotments.

Regardless of a customer’s price point, the Tarifica Score serves to reassure them that a plan rated a “Top Value Tarifica Score” represents a great value. Since the Score identifies the “Top Value Plan” in ten unique price segments, operators can highlight their top performing plans at every price point, giving consumers’ confidence that this purchase—which they will carry with them for years—is a sound decision. Even if an operator only has one “Top Value Plan” it can promote that plan to generate recognition as a provider of high value services.

Instead of trying to explain complex details or engage in point-by-point comparisons with competitors’ offerings, a mobile operator can advertise a plan by citing its easy-to-articulate Tarifica Score. For example, if a plan won the “Top Value Plan” for its category, the operator can market it as, “You are buying the ‘Top Value Postpaid Plan’ in the U. K. in the under €50/month category.”

One Tarifica Score client uses it in its advertising as shown below:

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*Best in category: Tarifica Score, August 2014

Even if an operator does not have a single Top Value Plan in any price category, it can review the list of all plan scores each month and look for the ability to make such claims as: “Operator X has six of the top ten highest rated plans in the country, or Operator Y has more plans in the top ten highest rated plans in the country than any other operator.” There are many ways the Tarifica Score can be used to provide consumers with confidence in the overall value received from an operator, thus keeping them from "churning out," or the confidence to go out and seek a new plan from that operator.

This impact cannot be replicated through studies commissioned by mobile operators currently found in the market literature. The Tarifica Score is a consistent algorithm, created by a well-established third party. It has been evaluated in industry publications and cited by mainstream media from around the world. Any attempt by a mobile operator to reproduce this model (or pay a third party to do so) would be seen as self-serving—drawing skepticism from the media and consumers alike. The Tarifica Score has the credentials and history that substantiate it as an unbiased means to evaluate the consumer values of mobile plans.

Upselling Customers

The foundation of the Tarifica Score is unit cost, which is total plan allotments divided by total costs. Mobile operators tend to offer their best volume discounts in high allotment, high price plans, giving them the best price per unit. Therefore, the Tarifica Scores trend upward with price. The absolute highest scores are generally awarded to top-end, high margin plans. As such, the Tarifica Score can be leveraged as a means to increase customers' monthly mobile spend by demonstrating the cost effectiveness of these plans.

The impact of volume discounts is generally present in both movement from low to moderate priced plans and in movement from moderate to high priced plans. Customers can sense this by comparing data or voice volumes versus monthly charges but it is very difficult to compare plans mathematically when multiple services and different value added elements are involved. The Tarifica Score can show customers the exact relationship among these plans and they will clearly be able to see that for a small increase in monthly cost the associated value of their mobile plan can rise dramatically.

At a time when global ARPU has been consistently falling, the Tarifica Score is a tool operators can leverage to move subscribers to plans with higher returns.

Improving Tarifica Scores

A significant benefit from the J.D. Power and HLDI analyses is that by utilizing the results, manufacturers can improve those aspects of their products and services most important to consumers. Similarly, the Tarifica Score can be used to efficiently improve plans in ways that maximize the increase in score values at the lowest additional operator cost. While recognizing the impact of the Tarifica Score in marketing, one common refrain from operators is: "The Tarifica Score appears to be a powerful way to differentiate plans, but how can we use it if our plans don't score well?"

Included with every operator subscription to the Tarifica Score is unlimited consultation service to improve plans' scores. The Tarifica Score algorithm is highly sensitive and small modifications to a plan's included features or cost structure can often have a significant impact on its score.

For example, in the South African market, one operator's 8 GB promotional plan placed fifth in the overall SIM-only category, with a Tarifica Score of 63. Its generous data allowance of 8 GB came with the restriction that 4 GB could be used anytime, but the other 4 GB could only be used between midnight and

6 a.m. If the restriction had been removed, however, its Tarifica Score would have been 100. Alternatively, by changing the restriction to 2 GB of nighttime data, lowering the monthly fee from R599 ($52.19) to R549 ($47.84) and lowering the activation fee from R195 ($16.99) to R114 ($9.93), its Tarifica Score would have jumped to 98.

Tarifica's experienced consultants can explore options such as those described above and work with subscribers to create any number of alternative plan constructs. Expanding any feature (minutes, SMS, data, value added services) or reducing any cost will enhance a plan's score. By running multiple scenarios through the tool containing all plans in the country they can identify the best options for improving scores that will enable the operator to capture the "Top Value Plan" position. Using this "what if" approach will help operators minimize both additional costs and increases in network capacity required to achieve the desired score.

Market Intelligence

In addition to the Tarifica Score's benefits in branding, marketing and sales, the tool has substantial value in terms of identifying and understanding trends in the mobile market. It enables market observers to cut through the hundreds of offers, promotions, discounts and variations in available plans (that may have been formerly analyzed subjectively or with less robust algorithms) and immediately identify those that stand out in their market segment. By using this tool on a monthly basis operators will immediately be able to assess the value of recently introduced plans. One example is the new Sprint "Cut your bill in half" plan. Analysis by the Tarifica Score instantly showed that it had only average value compared with existing plans, although it was much better than the older competitive plans it was trying to replace.

When used in conjunction with the Tarifica Mobile Plan Database users can also segment results by cost, plan allowances, device inclusion, regional availability or other selected metrics in order to correlate plan value with those elements. For example, users could easily identify phones that are paired with the highest (and lowest) scoring plans

The Tarifica Score can also be used by regulators to compare the total consumer value an operator's plans offer with those of its competitors or, by converting the charges of all operators in a region to a standard currency, it can be applied across countries to not only find the "Top Value" operators and plans in the region but to also measure the gap between best and worse.

Staying on Top of the Market

Every mobile telecom market observer recognizes the rapid pace at which this industry changes. Virtually every major new smartphone offer immediately generates many new mobile plans. Operators constantly track their competitors in an attempt to diminish the effects of their innovations while introducing their own. Tarifica's experience with tracking the market and watching the changes in Tarifica Scores makes it clear that promotions play a major role in increasing sales and changing market shares. Monthly Tarifica Score updates provide operators the means to stay abreast of this rapidly changing market, quickly identify new market leading plans and helping operators to create effective responses. This reduces the need to rely on high cost reactive efforts to watch for new offers or manually compile alerts received from multiple sources.

Conclusion

The mobile industry is experiencing fierce competition. Consumers are searching for plans that maximize their mobile spend and find this to be very challenging. Operators are spending large sums to improve their networks and promote their services while continually looking more and more like commodities. Operators need to get off the high cost of differentiation treadmill and find a way to gain a distinctive edge without spending a fortune.

An effective differentiation strategy is the use of third party awards for products, service and customer satisfaction. Companies such as J.D. Power and HDLI offer a tested and reliable means of demonstrating clear differentiation in ways that are meaningful to customers.

The Tarifica Score is a similar tool for the mobile consumer market and provides many collateral benefits including:

- Produces easy to understand, unambiguous numerical scores measuring customer value that can be used to differentiate and promote plans.
- Keeps operators current with monthly updates - demonstrates the changes in plan values due to current promotions, discounts and deals that often drive customers to purchase new plans.
- Identifies Top Value Plans overall in each market as well as in each of ten price categories providing multiple opportunities for operators to promote their scores.
- Enables customized plan development to achieve the highest scores at the lowest development cost.
- Makes plan selection easier for customers while assuring them they are buying a high value plan.
- Reduces outward churn, while enticing customers to leave other operators.
- Increases sales in general and increases sales of longer contract, higher margin plans.
- Provides market intelligence on competitive plans in terms of consumer value, not just price and service allotments.
- Offers unbiased third party perspective and credibility.
- When combined with the Tarifica Mobile Database customers can segment results by plan elements in order to correlate plan value with those parameters.

Operators seeking a low cost means of differentiating their offers need to investigate the use of the Tarifica Score.