

# Pipeline

Knowledge Is Power

[www.pipelinepub.com](http://www.pipelinepub.com) Volume 6, Issue 1

## Why Wireless Carriers Love iPhone and Blackberry Users

*And everyone else is a loser...*

By Ed Finegold

From a wireless carrier's perspective – among others - I am loser. I compare my relationship to my mobile phone to my friend Dan's with chicken. Dan used to work for a commercial meat wholesaler. He visited chicken farms regularly. He hasn't eaten a bite of chicken since. Similarly, having studied telecom billing for nearly 15 years, I won't bite on value-added services. I've used an inexpensive pre-paid service for more than two years, since dropping one of the major carriers. And for this reason, I'm a loser. I'm not one of those beloved iPhone or Blackberry users with an increasing ARPU and a hunger for megabytes. I do have the opportunity to study usage and spending patterns across the industry, however, and it's clear why these customers are so valuable for wireless carriers.

### ARPU V.I.P.s

Thanks to Validas ([www.myvalidas.com](http://www.myvalidas.com)), a company that provides wireless bill analysis and plan right-sizing advice for businesses and consumers, I've been involved with several studies examining anywhere from 1,600-plus churners to 40,000-plus wireless users from all parts of the market. I've been crunching the numbers on one sample of 2,402 individual consumer wireless customers from Verizon Wireless, AT&T Wireless, Sprint, T-Mobile, and U.S. Cellular. Of these, 146 are Blackberry addicts – about 6 percent - and 174 are iPhone junkies – about 7 percent.



From a pure spending perspective, the 13 percent of these users that are iPhone junkies and Blackberry addicts accounted for about 23 percent of the total charges billed. In this sample, Blackberry users showed an ARPU of \$109.99 while iPhone users delivered \$90.71 per user. Todd Dunphy, president for Validas, explains that Blackberry plans are simply a little more expensive than the iPhone plans, which accounts for most of the difference in ARPU.

But here's the kicker – the other 2,082 users who have neither Blackberrys nor iPhones showed an average ARPU of just \$51.41. That's about 57 percent of an iPhone user's revenue contribution, and only about 47 percent of what a Blackberry user adds to the top line. That's why wireless carriers should, at the least, treat Blackberry and iPhone users like casinos treat their high rollers. "You need a new battery for that device? Here's one with my compliments...and a hand rolled cigar to boot."

### **It's Not Just About Data Usage**

It seems like every analyst in the wireless sector is talking about how important data usage is to revenue growth. They aren't wrong, but they're not telling the whole story either. In this study's sample, Blackberry users spent an average of \$35.49 per month just for their megabyte usage. iPhone users, similarly, spent \$26.63 per month for megabytes. Everyone else – us losers – spent an average of just \$4.18 per month. So, without question, data-friendly devices drive ARPU.

That said, Blackberry and iPhone users also use more of everything. They make 302 and 309 calls per month consuming 497 and 473 paid peak minutes per month respectively. Everyone else makes just 222 calls consuming only 275 paid peak minutes per month. It looks like those Blackberry and iPhone users really are more popular.



The image is a promotional banner for a white paper. It features a blue background on the left and a green background on the right. The text on the left reads "White Paper: Monitoring 3G/UMTS Networks" in large white font, followed by "Network, Service & Customer Experience" in a smaller white font. On the right, there is a blue and green logo for "TEKELEC" consisting of a stylized grid pattern. Below the logo, the text ">> DOWNLOAD WHITE PAPER" is written in blue.

The only service we losers use more than the Blackberry and iPhone VIPs, in some cases, is text messaging. That's probably because we don't have the same kind of access to email, instant messaging, and other applications that make text messaging look archaic. Keep in mind though that only 65 percent of us non-V.I.P.s even use text messaging, while 91 percent of Blackberry users and 97 percent of iPhone users send and receive texts. The 65 percent of we peasants that do send and receive texts use an average of 608 per month and spend \$10.92 to do it.

By comparison, iPhone junkies send and receive 512 text messages per month and spend \$6.64 for it. Blackberry addicts that use text messaging consume 412 messages per month but spend \$13.34 for the privilege. This number seems a bit skewed because Blackberry users, at least in this sample, are hit for messaging overage charges equaling 130 percent of what they spend for messaging plans, while iPhone users incur no messaging overages whatsoever. In other words, if you have a Blackberry, take a hard look at your text messaging plan and watch out for those overage charges. Just because you're a V.I.P. doesn't mean you're not also a sucker.

### **iPhone Users Pay More for Nothing**

One area where iPhone users are paying a bit extra is for those unspecified surcharges that all carriers extract from customers. The average consumer wireless customer, according to this study, pays 4.7 percent of his or her bill for this secretive line item. That includes everyone, regardless of their device. This means that on average consumer wireless customers pay \$2.93 per month for nothing in particular. Consider that for a wireless carrier with say, 60 million subscribers, that results in nearly \$176 million in revenue per month, or more than \$2 billion per year. That's a whole lotta nuthin'.



Let us **accelerate** your time to market

ASK CONCEPTWAVE ABOUT ...

- multi-play orders
- exception order handling
- centralized dynamic catalog
- processing millions of orders

ConceptWave

www.conceptwave.com

**Empowering Service Orders**  
Proven, high performance order and catalog management solutions.

The coach class customers who use post-paid services (unlike me, I like to tell myself this is part of why I use pre-paid) pay about 4.5 percent – about the same. Blackberry users pay just 4.4 percent, which is deceiving because overall they spend about twice as much per month as the folks seated in the rear. They kick in \$5.17 per month for carrier surcharges where everyone else – except iPhone users – pays \$2.48 per month.

iPhone users pay 6.5 percent of their bills to unspecified surcharges. That translates into a whopping \$6.39 per month. In other words, they pay more than twice as much for absolutely nothing as the typical user. One would think that iPhone users would be outraged by this fact. But on the whole they aren't. They love those little devices. Another study Validas is conducting now looks at 1,666 customers who churned, or switched carriers. Only one of them was an iPhone user. What's more, unspecified surcharges, as devilish as they may be, aren't a big predictor of churn. Every post-paid subscriber pays for them, but only about 4 percent of the customer base defects from one carrier to another every month.

### **Uncle Sam and Friends**

The CTIA, the wireless industry's lobby group, has argued for years against the federal, state and local taxes and fees levied on wireless subscribers. This is somewhat ironic, or hypocritical, given their support for the carriers' own unspecified surcharges. The fact is, though, that Uncle Sam and his pals in state and local government love wireless bills. On average, they take more than 7 percent of what everyone pays for service. Even I, with my "off the grid" pre-paid strategy, can't avoid the long arm of Mayor Daley and his 10.25 percent sales tax here in Chicago. Ouch...

Tax authorities really love iPhones and Blackberrys. The average Blackberry user pays \$6.55 per month in taxes and fees, including universal fund charges. iPhone users pay even more – an average of \$7.36 per month. Score one for the little guy though; the rest of us pay an average of \$3.96 in taxes each. Averaged across all users, the monthly tax bill comes to \$4.36 each. With roughly 250 million wireless users in the United States, that amounts to tax revenues of more than \$1billion per month derived from wireless bills alone.

### **Bottom Line for U.S. Wireless Carriers**

Churn remains one of the costliest pains all wireless carriers face. Examinations of customer defections show that the four major carriers are beating the heck out of each other. Two to six percent of each carrier's customer base defects to competitors every month, and there's no single reason that drives churn. As a result, there's no simple solution to the problem – no silver bullet to slay this werewolf. Because of the enormity of it, it probably makes sense to tackle it in bite sized pieces.

Most experts seem to argue that understanding a customer's lifetime value is a key factor in deciding whether that customer is worth keeping. Newer models are looking at a customer's social network influence as another important factor. The numbers from Validas' study show that simple segmentation, based on usage and device, needs to be in the picture. If Blackberry users are so valuable and spend more on everything than everyone else, then it's worth spending a bit to keep them. There's not much margin with the folks who only spend an average of about \$50 per month. Pushing them all into expensive win-back campaigns, or offering them the same incentives as high value users, likely doesn't make sense.

All of that said, the 65 percent of coach-class users who send a lot of text messages are an intriguing group. How many of them would they spend more and do more with a Blackberry in hand? What percentage of them uses a little data now, but might use a lot more with a better device? Good metrics for carriers to consider might be the percentage of that user segment they're able to penetrate with Blackberrys or similar devices and what that in turn does to their ARPU and service usage across the board.

It begs some chicken-and-egg questions. Is it simply that folks who spend and use more services gravitate to Blackberrys and iPhones? Or, does having a Blackberry or iPhone in hand increase ARPU overnight? And, when do carriers reach the point of diminishing returns, where everyone who's going to spend and use more has a high end device? In other words, carriers need to understand what penetration rate for those devices makes sense before they're just giving expensive handsets to people who only make phone calls. All of that information is hidden in the detail on every wireless bill.

But what do I know? I'm just a loser with a pre-paid phone.