

To MNP or not : *That* is the question

POLICY BRIEF

KEY RECOMMENDATIONS

Market dynamics

The budget network model adopted in several emerging Asian markets will not allow the expected benefits of MNP to be realised. Current levels of competition and market size must be analysed along with the prevalent business model. Timing is the key. For instance, if the introduction of MNP coincides with new market entry, it is likely to be more effective.

Pricing

Who will bear the network switching costs: The donor operator, the receiving operator or the customer? According to basic economic principles it should be borne by those who benefit from the service.

Understanding the subscriber

Especially in markets with a considerable number of subscribers from the bottom of the pyramid (BOP), it is important to give weight to behavioural factors. Packages that offer cheaper on-net tariffs (especially friends and family packages) are often valued more than a phone number.

THE RATIONALE BEHIND MNP

Most subscribers put a value on their mobile phone numbers, especially when they have been in use over a long period of time. There is, therefore, value in being able to change operators for better service (quality, customer care, tariffs) without having to change numbers.

The primary factor is reduction in transaction costs; i.e., the time and money spent in moving to a different operator. This would typically be borne by the customer who may have to:

- (a) Forego the "connection charge"/non-refundable deposit paid for the old SIM card (post-paid customers)
- (b) Spend time processing the disconnection of the old SIM card
- (c) Spend time processing the application for a new SIM card
- (d) Pay for the new SIM card and associated administrative charges
- (e) Spend time and money informing others of the new number (this can range from simply word of mouth or amount to a considerable sum if letterheads, business cards etc. need to be re-printed)

A cursory analysis of switching costs suggests that MNP will be most valuable for high-end corporate subscribers. Low-income users are more likely to opt for prepaid

connections that are relatively cheap to obtain. They are also more open to change; that is, they will possibly choose to own multiple SIM cards, should a new player enter the market offering better packages.

USER BEHAVIOUR AT THE BOP

Most mobile phone users in emerging Asia, especially those at the bottom of the pyramid (BOP), have low incomes. Given the limited discretion they have in the types of calls they make and the importance of affordability, they tend to depend more on discounted tariffs such as friends and family packages. Such packages, however, are network dependent; i.e., the discounted tariffs are only applicable to numbers belonging to the same network (albeit some packages do provide cheaper call rates to a few numbers on other networks).

MNP, in this context, can cause unintended problems. The efficacy of friends and family packages and on-net pricing requires the numbers to signify networks. With MNP however, numbers would no longer signify the network, and as a result, subscribers may rightfully but unexpectedly be charged off-net tariffs, as opposed to the expected discounted tariffs.

The proclivity of those at the BOP to use the cheapest possible package drastically reduces their switching costs and hence the need for MNP. In Pakistan for example,

there was a rise in number of subscribers who used multiple SIM cards (from 13% to 23%)¹ even after the introduction of MNP in 2006.

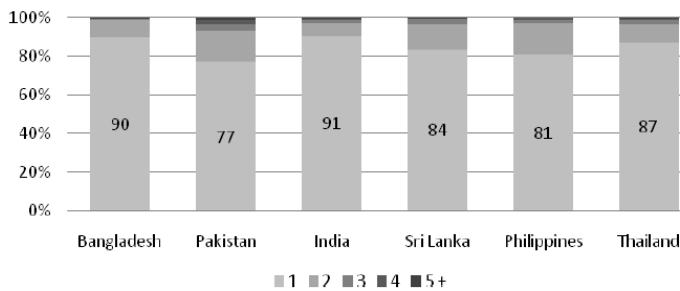


FIGURE 1: NUMBER OF ACTIVE SIM CARDS FOR PERSONAL USE

KEY CONSIDERATIONS WHEN ASSESSING THE FEASIBILITY OF MNP

Due to the associated substantial network and operational costs, a thorough analysis to assess the feasibility of introducing MNP is imperative.

- *Current market size:* The first step when assessing the feasibility of MNP is, understanding the number of mobile subscribers in the market. This gives an indication of the potential demand for the service.
- *Customer behaviour:* Even if there is a sizeable customer base, it is important to comprehend their behaviour. For example (and as previously stated), it is unlikely that those at the BOP will opt for MNP. An analysis of their lifestyles and use of the mobile phone suggest that the value of being able to use services for cheaper rates (e.g., friends and family packages) outweigh that of the value placed on numbers. Business users, on the other hand, place a higher value on their phone numbers and are more likely to retain them even at a cost.

This distinction may also correlate to the type of package; prepaid vs. post-paid. It is possible that MNP may not even be a requirement of prepaid SIM card holders. Owing to the low costs of obtaining a prepaid SIM, it is potentially more economical to own multiple SIM cards as seen among the BOP (refer Figure 1).

- *The level of competition:* In markets that have homogeneous operators (that is, players who offer similar prices and similar quality of service) it is likely

that subscribers will not have an incentive to port and therefore MNP will not really have an effect in such a market. However, in a situation where competition is ineffective, MNP may stimulate it. In fact, the threat of introduction of MNP in a relatively stagnant market may also serve as an incentive for existing operators, not only entrants.

- *Pricing:* It will perhaps be best for the subscriber who uses the service (or the receiving operator, if they so wish to) to bear the costs.
- When implementing MNP, it is also important to consider other factors such as unfettered access to services and interconnection. National numbering plans are additional aspects that may require redesign.

CONCLUSION

The introduction of MNP has a different impact in developing markets as against developed ones, because of different market dynamics. Therefore, although it is seen as a key driver of competition in developed markets, it may not have those effects in developing countries. MNP has the potential to yield considerable benefits to corporate and high-end customers; but who should bear the significant network costs? In essence, the introduction of MNP should not affect tariffs across the market. This may impact the sustainability and hence the economic viability of MNP.

These considerations along with the predominant network costs beg the question – *does the cost of implementation outweigh its benefits?*

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¹ Source: LIRNEasia's T@BOP2 and T@BOP3 survey results.