

WHY PURCHASE A MOBILE DEVICE?

Offering consumers greater
affordability and choice



WHY OWN A MOBILE DEVICE?

The business model of purchasing and owning a mobile device is fast changing. Large operators no longer provide subsidies alongside long term, high cost contracts and are focused on streamlining cost structures and conserving cash. At the same time, customers want access to the latest devices when they become available and the freedom to upgrade as they choose. However, with the increasing cost to acquire a mobile device this is becoming difficult.

This disruption is creating opportunities for creative new financing options. For operators, such options can help bridge the gap to support retention efforts, and for consumers, they offer greater affordability and flexibility, enabling a unique, customised and memorable experience.

Purchasing and owning a device is a valid market offering and may be the right option for many consumers. However, a subscription model is providing a compelling alternative with immediate benefits to many of today's consumers and other market participants. Importantly, such an option is particularly appealing to the growing cohort of millennials (and others that seem to quickly adopt the approaches millennials often initiate) – a group not to be overlooked given their different purchasing patterns and sharing mentality. Such factors will likely drive innovation and further benefits in the future.

WHAT IS A SUBSCRIPTION MODEL?

Underpinned by a bespoke financial structure, telcos/retailers can offer an alternative option to outright ownership of a mobile device, without needing to undertake a large capital funding program or disrupt their relationship with the end customer. A subscription model allows consumers to continue to satisfy their underlying desire to possess a mobile device by renting it with the freedom to upgrade to the latest device when they become available.

Under a subscription model, consumers have access to a device at a more affordable monthly cost, freedom to upgrade to the latest release and access other benefits such as replacement, warranty, insurance and accessories. The subscription model costs less than purchasing and owning a depreciating device and there is flexibility to upgrade the device without a large fee.

WHAT IS THE BENEFIT OF A SUBSCRIPTION MODEL?

With the increasing cost of mobile devices, consideration of a subscription model becomes an attractive proposition for consumers looking to reduce capital outlays and improve monthly savings. According to Accenture research¹, millennials are strong savers when working towards a goal, with 74% saying they regularly save money. Millennials may also be representative of other generations through a shared mindset and values including global connectedness and environmentally responsible.

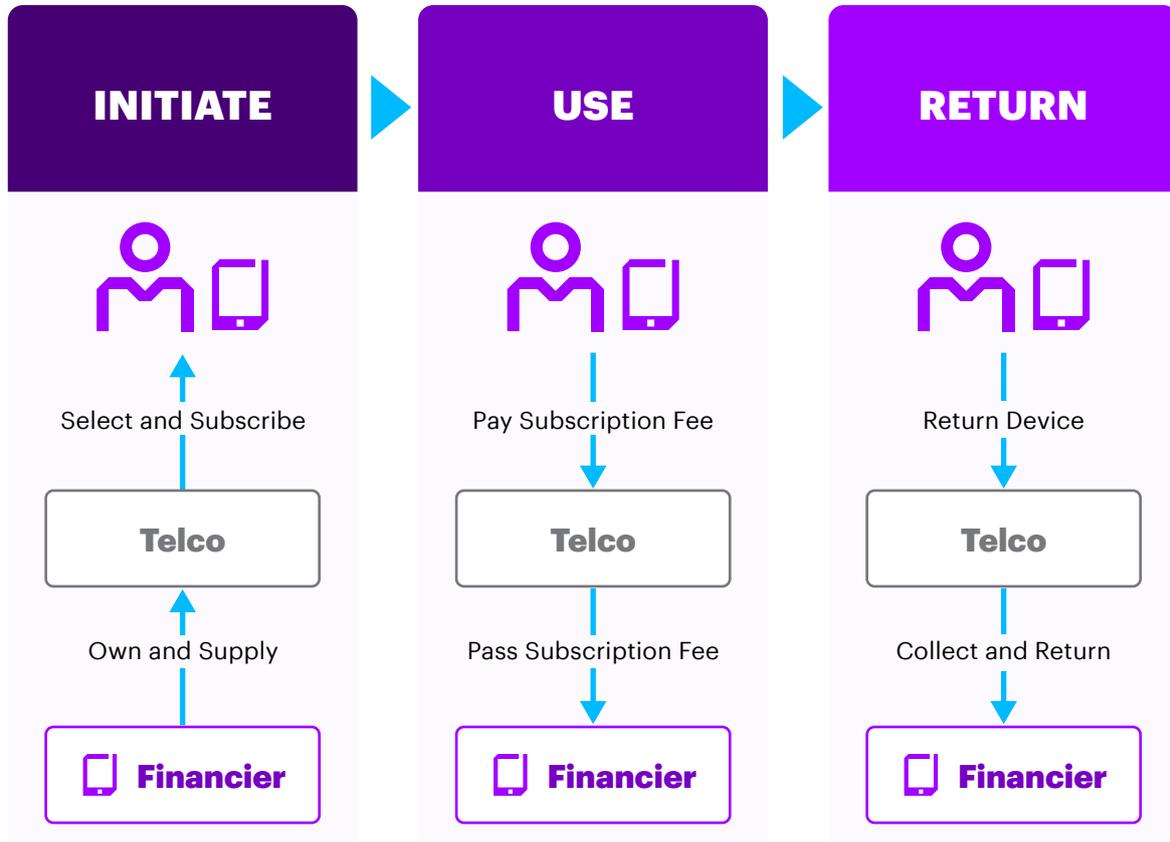
For telcos/retailers, it removes the need for, or frees up, capital (if they are currently financing themselves) enabling them to invest more in their network and core business.

In turn, this enables opportunities to invest in new revenue pools or sources of growth with greater operational efficiencies and better return on capital. Product teams can focus on developing differentiated products and services for new and existing customers. Research² finds millennials are seeking services that are 'made specially for me'.

The subscription model also inherently creates ongoing engagement and dialogue between the telco/retailer and their customers. The customer returns as they upgrade to a new device when it is available, underpinning a no ownership sharing mentality (e.g. shared cars, shared bikes etc).

HOW DOES IT WORK?

At a macro level a typical subscription model has three parts:



1. INITIATE

Customers select from a range of devices provided by the financier through a designated telco/retailer channel. Once selected, the customer subscribes for a set term, paying a lower monthly subscription fee, compared to purchasing and owning a depreciating device.

2. USE

With a monthly subscription fee, the customer uses the device and can choose to return and upgrade their device after a period. The customer benefits from access to the latest device when available.

3. RETURN

Customers can decide when to return the device and upgrade. The only requirement is that the device is returned to a designated sales channel before a new device is selected.

THE SUBSCRIPTION MODEL IN ACTION

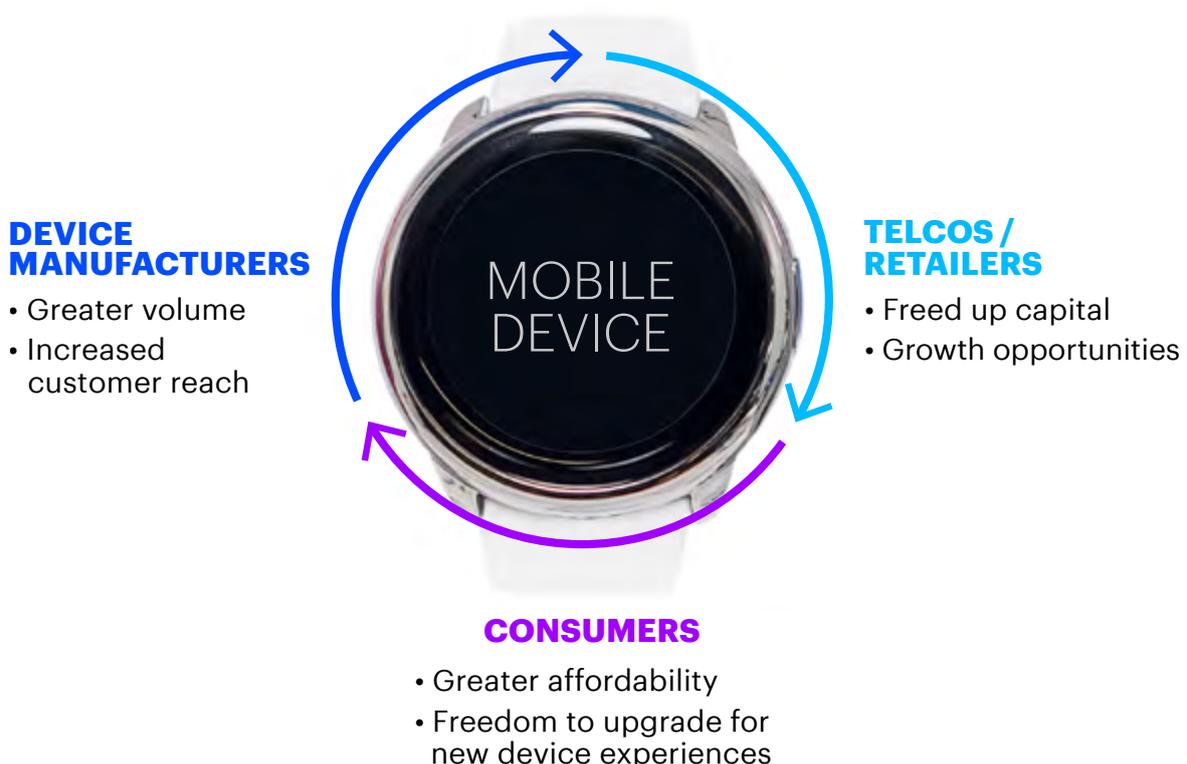
The subscription model is not new, but offers a significant deviation from the traditional device purchasing model. Telcos/retailers operating across Asia and the US are already using the model under varying structures, with consumers and providers enjoying the benefits. The variety of models highlights the inherent flexibility available to telcos/retailers and financiers.

Telcos/retailers across Asia are offering customers greater affordability and flexibility through variations of the subscription model. Maxis Malaysia³, Celcom Malaysia⁴ and SKT Korea⁵ are among these providers.

Globally, Telcos such as Sprint USA⁶, T Mobile USA⁷, Telstra Australia⁸ and Optus Australia⁹ have also been providing their customers with an option to sign up for a mobile device subscription model.

Under these types of arrangements, the customer always pays a lower monthly cost when compared to a device ownership model. However, for a subscription model to truly benefit all key stakeholders/participants, a bespoke financial structure must be built with a financier.

Key stakeholder benefits of a subscription model



FIND OUT MORE

Device technology is changing rapidly and the pace is set to continue. Purchase costs for devices and premium offerings are escalating. This makes it timely to consider alternative financing models, which allow consumers greater affordability and freedom to access the latest mobile device without having to purchase. The key is to create a unique customised and memorable experience, thereby differentiating the provider, establishing and maintaining customer loyalty and helping to pave the way for repeat business.

Millennials and others around the globe continue to embrace the 'sharing economy' concept to make affordable lifestyle related purchases. Telcos/retailers face the challenge of attracting new and retaining existing customers. They are under ongoing pressure to quickly find new ways to free up capital to fund the impending 5G rollout and their associated network and infrastructure costs. A subscription model offers a logical and cost-effective alternative for consumers, manufacturers and telcos/retailers providers.

To explore how this model could work for your customers and be introduced to potential financiers, please contact the Accenture or Macquarie Bank executives listed at the end of this document.



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REFERENCES

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