

A photograph of a man with dark hair, wearing a white t-shirt, smiling and talking on a mobile phone. He is in a home environment, with a staircase and a dining area visible in the background. The image is overlaid with a semi-transparent blue box containing the title text.

## Marketing Home Zone 2.0 Services

In an extremely competitive telecom environment, mobile, VoIP and occasionally fixed-line operators are bearing their swords to conquer personal communication services at home. The ideal solution for a mobile operator in this battle is to create a 'home zone' service where the operator can offer aggressive discounts to incent consumers to use their mobile phone as their only phone.

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## The Battle for the Home

It's clear that the battle for the home is well underway. In an extremely competitive telecom environment, multiple mobile, VoIP and occasionally fixed-line operators are bearing their swords to conquer personal communication services at home.

The ideal solution for a mobile operator in this battle is to create a service 'zone' in the home. In this zone, the operator can offer aggressive discounts to incent consumers to use their mobile phones as their only phone for all types of personal communications services (voice, instant messaging, email, browsing, social networking...)

Unfortunately, in this battle, the mobile provider is at an operational disadvantage. The mobile radio access network (RAN) is typically more expensive than fixed or IP networks in the cost of service delivery. The structure of the macro RAN does not support a good 'home service zone.' And with low mobile device performance indoors (coverage, packet data rates), it becomes clear mobile providers need a new approach in the home.

To combat this, operators such as Orange, T-Mobile and Sprint are focusing on the next generation of Home Zone service technologies to overcome these issues. Known as "Home Zone 2.0" (HZ2.0), these services rely on low power in home wireless access points (Wi-Fi or femtocells) to improve mobile performance, while using the consumer's broadband and the internet to lower service-delivery costs.

There are many variables for operators to consider when developing a HZ2.0 service offer based on femtocells or dual-mode handsets (DMH): pricing, positioning, strategic objective and more. A handful of operators have stepped ahead of the pack and are establishing best practices for HZ2.0 offers.

## → Key Offer Influencers

### Service Objectives

Before crafting an HZ2.0 service offer, an operator should first determine its primary objectives for deploying the service. There can be any number of business drivers and goals. Typically, it is intended to achieve one or more of the following objectives:

- Increase mobile average revenue per use (ARPU)
- Accelerate/manage fixed-mobile substitution (FMS)
- Increase mobile subscriber acquisition
- Increase broadband subscriber acquisition
- Increase subscriber loyalty and reduce churn
- Address threat from VoIP providers

A well-crafted service offer may be able to address multiple objectives and meet with greater success. However, it is important to prioritize the service objectives to ensure that internal and external company goals are met.

### Market Position

When evolving an HZ2.0 service strategy, an operator needs to clearly understand its market position relative to other mobile and broadband providers. For example, an HZ2.0 service offer from an integrated operator with leading market share in both mobile and broadband service would likely be quite different from a mobile-only operator that is a challenger in the market. Charting an operator's market position (Figure 1) can help identify opportunities or issues to be addressed by an HZ2.0 service offer. Paired with identified service objectives, the market position chart is helpful in plotting HZ2.0 service goals.

As Figure 1 shows, an HZ2.0 service targeted at existing mobile and broadband customers (top left square) is the easiest opportunity to address. For integrated operators with strong market positions in both services, it may make sense to target the initial HZ2.0 service at this group to increase loyalty and mobile usage.

However, if the market has little broadband penetration (top right square), or the operator has a low share of broadband (top center square), the objective may be to secure new broadband subscribers. In such a situation, an HZ2.0 offer may focus on lower-cost mobile services as an inducement for consumers to sign up or switch to the operator's broadband service.

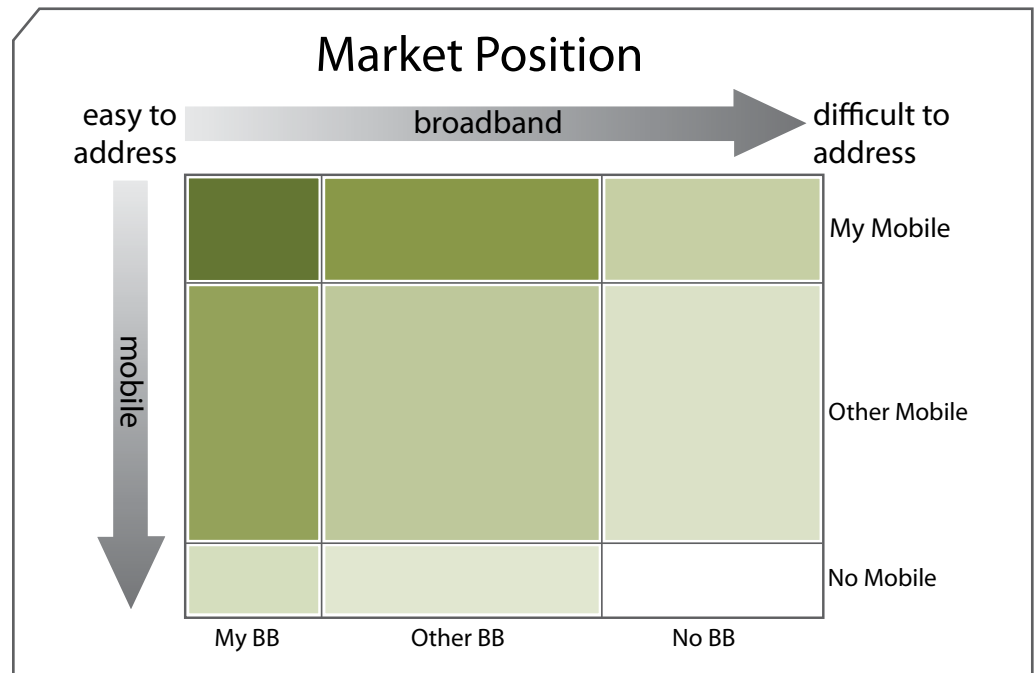


Figure 1: A model to evaluate an operator's relative broadband (BB) and mobile market positions

### → Key Offer Dimensions

By understanding an operator's market position and service objectives, it is possible to begin evaluating different dimensions of an HZ2.0 service. The different facets of an offer can be modified or adjusted to meet specific goals.

#### Basic Offer Structure: New Plan or Add-on Plan

There are two basic approaches for structuring an HZ2.0 service offer: (i) create a new set of mobile service plans that includes HZ2.0 capability, or (ii) make HZ2.0 an 'add-on' feature to existing mobile service plans.

The latter simplifies the customers' decision process. Rather than evaluating an entirely new mobile service plan, the subscriber can simply decide to add the HZ2.0 feature to his or her existing plan at a nominal monthly fee.

This is the approach HZ2.0 leaders, such as Orange, T-Mobile and Sprint, have taken with their service launches.

## Basic Pricing Structure: Flat Rate or Price/Minute

There are two basic approaches to pricing actual service usage when subscribers are in their Home Zone: (i) offer a discounted per-minute rate; or (ii) offer a flat-rate usage plan.

To date, nearly all operators worldwide have chosen to structure their HZ2.0 offers as flat-rate service plans. Operators see HZ2.0 services as a good way to introduce flat-rate plans without sacrificing the value of the macro mobile network. It enables operators to limit flat-rate usage to specific locations (e.g. home and office).

## Target Service Price

Flat-rate pricing of an HZ2.0 offer can be used to advance an operator's strategic objectives in a particular market based on the operator's relative position as incumbent or challenger.

The marketplace has seen challengers being aggressive on flat-rate pricing from the beginning, with the goal of driving increased ARPU and minutes of use, as well as acquiring new mobile subscribers.

T-Mobile US, for example, introduced Unlimited HotSpot Calling (formerly known as HotSpot @Home) with unlimited flat-rate calling for a low \$10/month. Sprint's service offers subscribers unlimited calling in the US when connected to the Airave femtocell for \$15/month.

Alternatively, incumbent providers often choose to start with a relatively high flat monthly rate. For example, Orange's Unik service in France has an initial monthly price of 22€/month (\$30US) and is crafted initially to increase loyalty and drive usage from existing Orange mobile and broadband subscribers.

## Access Point Distribution

HZ2.0 services rely on a low-power access point in the home. For a DMH service, it is a Wi-Fi access point. For a femtocell service, it is the femtocell itself.

In a femtocell offer, the operator has to provide a femtocell to be installed in the home as part of the service. In the case of a DMH service, it is not required for the operator to provide a Wi-Fi access point as part of the service offer, as many broadband homes already have a Wi-Fi router. However, most operators deploying a dual-mode offer make Wi-Fi access points available to subscribers for purchase.

For subscribers using the operator's own broadband, the ideal access point is likely to be an integrated DSL modem and Wi-Fi router. This approach provides the operators with the best control and also provides 'sticky-ness' for the bundled broadband and mobile services.

For subscribers using third-party broadband, there is value for the operator to develop a branded Wi-Fi router to be used in conjunction with the subscriber's existing in-home network. T-Mobile's branded Wi-Fi access points serve as a strong model. Placing a branded access point in the home offers an additional element of 'sticky-ness,' as well as providing an element of operator control for the HZ2.0 offer.

## → Service Restrictions

A goal of the HZ2.0 service deployment is to maximize subscriber uptake. Introducing as few service restrictions as possible enables the widest possible target market. However, other service objectives, as well as the market position of the operator, may dictate unique service restrictions.

### Broadband Connection

A common service restriction for an HZ2.0 service pertains to the broadband access line used to deliver the service. An operator should make the service available for use on any broadband access connection, regardless of provider, to reach the widest number of potential subscribers.

However, some operators have launched HZ2.0 services targeted only at existing broadband and mobile subscribers. While sufficient for initial launch, this tends to unduly restrict the total number of potential subscribers.

To provide service to an entire market, operators must consider the consumers' different broadband situations. For the purpose of this discussion, we will segment potential HZ2.0 subscribers into three categories (from Figure 1):

- Those with the operator's own broadband service
- Those with broadband service from another provider
- Those with no broadband service

It is possible to craft a service offer to appeal to all three subscriber types (Figure 2). First, determine a service rate – for example \$20 US/month. This becomes the service price for subscribers using a competitive broadband service. These subscribers are taking a single service (mobile) from the operator and therefore deserve no added incentive for the HZ2.0 service.

Then, adjust the offer as an incentive for the operator's own broadband users. There should be a benefit in taking two services from the operator (mobile and broadband). In this example, the subscriber gets a discount on the HZ2.0 offer, paying just \$10 US/month.

Finally, for subscribers with no broadband or who are willing to switch broadband providers, there should be an additional incentive to take the operator's own broadband service. In this example, the offer may include three or six months free broadband with sign up. In addition, the \$10 US/month bundled HZ2.0 service rate also applies. It is possible to meet the needs of all three broadband subscriber types while making the service available to the widest range of mobile subscribers. It's a win-win situation.

	<b>Home Zone Service Add-on</b> (baseline \$20/mos.)	<b>Comment</b>
<b>Own Broadband</b>	<b>\$10/ month</b>	Takes own BB + Own Mobile = <u>          </u> <b>Discounted HZ</b>
<b>No Broadband</b>	<b>\$10/ month + 3 mos free BB</b>	Takes own BB = <u>          </u> <b>Discounted HZ + Discounted BB</b>
<b>Other operator Broadband</b>	<b>\$20/ month</b>	Own Mobile - Other BB = <u>          </u> <b>Full Price HZ</b>

Figure 2: Chart on pricing services

## Usage Locations

The ideal HZ2.0 service offer extends beyond the home. The competition from VoIP providers is any location with broadband and Wi-Fi.

HZ2.0 offers based on Wi-Fi technology have many service location considerations. Should the HZ2.0 plan be available to subscribers in the home? Only on specific Wi-Fi access points? In the office? At 3rd party hotspots? From Wi-Fi locations outside the home country? An operator can grow this as much as is prudent. T-Mobile US decided to be aggressive, enabling Unlimited HotSpot Calling subscribers to receive service from any Wi-Fi access point, anywhere in the world.

## → Service Additions

The focus of most HZ2.0 service plans has been on discounted calling from within the zone. For consumers, the position of a mobile phone that “works better, costs less” is an easy concept to grasp.

However, there are opportunities for operators to add features and benefits to the basic Home Zone plan to make the offers more attractive.

## Data plans

HZ2.0 is not only for voice. Subscribers typically have a per-byte data service fee associated with their mobile plan. The operator can offer unlimited flat-rate data access within the zone as well. Telia has pioneered this with its HomeFree service offer, which offers unlimited packet data service access when subscribers are connected over Wi-Fi.

## International calling

Some operators, such as Orange, offer an additional incentive to HZ2.0 subscribers by adding unlimited calls to fixed lines in several other countries (typically Western Europe and the US). The service goal is to increase mobile usage, and this is an example of adding incentives to make the mobile phone the only phone.

## Fixed-line VoIP

Many consumers are hanging on tight to their fixed-line phone numbers and their POTS line equipment (cordless phone) rather than migrating to mobile for all in-home calling. Therefore, a complete solution for FMS may require supporting fixed-line telephony as well.

T-Mobile recently launched a fixed line VoIP service called “@Home” ([www.t-mobileathome.com](http://www.t-mobileathome.com)). The service is available to any T-Mobile subscriber and offers unlimited flat rate calling from the subscriber’s existing fixed-line home telephone for \$10/month as an added service. To use it, the subscriber must buy a UMA-enabled terminal adaptor from T-Mobile. Subscribers may have T-Mobile port their existing fixed line phone number to the T-Mobile network. The number is associated with the terminal adaptor, and the terminal adaptor is connected to the subscriber’s in-home broadband network. From then on, calls to the fixed phone number ring on the terminal adaptor. This is a high-value, low-cost, fixed-mobile substitution (FMS) application for mobile operators.

While the basic HZ2.0 services center around low-cost voice, there are many opportunities to add unique elements to the service (Figure 3).

Usage Locations						
	Operator Broadband	✓	Not Applicable	✓	✓	Not Applicable
	Any Broadband		✓		✓	✓
Apply only for DMH services		✓	✓		✓	
			✓		✓	
			✓			
	Fixed Line VoIP		✓	✓		

Figure 3: Common service additions to Home Zone 2.0 offers

## Conclusion



Mobile operators are rolling out HZ2.0 service offers for clear strategic and tactical reasons. They are being used to increase loyalty, subscriber ARPU, mobile usage, as well as to capture and retain broadband subscribers.

Yet crafting the HZ2.0 offer is critically important. Ensuring the service objectives are clear and well defined is key to developing an effective service offer.

Orange's HZ2.0 offer, Unik, is an example of a well-crafted offer that has been an unqualified success. Unik subscribers generate 10% more ARPU, and 15% of Unik subscribers are new to Orange. In the second quarter of 2008, Orange surpassed 1 million UMA handsets sold, less than 18 months after launch.

Taking advantage of the multitude of opportunities to expand service, an operator can measurably increase subscriber minutes and capture new revenues. In today's increasingly competitive environment, a strong HZ2.0 service offer is a strategic imperative to meet an operator's long-term goals.