Hi Elisse,

Here is my report for our client company X regarding the proposed introduction of handset leasing as a means of driving profitability. My recommendation is that they should proceed with this project as handset leasing has been successfully adopted in similar markets in the US, Singapore, and Australia.

There is a projection that the telecom industry will experience an annual contraction rate of around 4% between 2018-2022. Consumer sentiment and trends observed in other markets suggest that handset leasing will minimize net losses in revenue and share value.

The following is the research based on which I support this project:

The market has expanded SIM-Only plans to allow for handset leasing and recycling old phones.

* Higher adoption of SIM-Only plans has had a negative effect on revenues in south east Asian markets (Singtel, StarHub & M1)1 . Companies have started to offer handset leasing services to accommodate for consumer preferences for SIM-Only plans due to lower costs.
* Singtel and StarHub witnessed year-on-year declines of 10% and 8% in post-paid ARPUs.2
* There has been a contraction in legacy usage (phones less likely to be passed down in family) and the used Smartphones market was valued at $17 billion in 2016 with 50% year-on-year growth3 .

Consumer sentiment shifts towards lower up-front costs and being up to date with technology.

* Handset leasing lowers the initial upfront costs for consumers and customers can up to 70% of retail price for the phone through handset leasing4 .
* Popular among youth (aged 20s) who do not have as much disposable income.
* Consumers are interested in having the ‘latest and greatest’ technology.5 Being able to switch phones every year or two allows customers to stay up to date.

Competitors have adopted handset leasing to raise revenues and create new revenue streams.

* Singtel shows customers can save from SGD758 over one year and SGD358 over two years.4
* Handset leasing was adopted by Singtel and SKT after suffering 5.7% and 3.5% year-on-year drop in revenue respectively. SKT has seen 25% of customers prefer leasing phones.
* Sprint saw an increase of43% in profits in the US, being 1 of 4 major providers. Handset leasing provides opportunity to re-sell and recycle older phones as 10% of new phones (2016) will have 2 or 3 more users after re-sell,3 which can act as future revenue streams.

Handset leasing is appealing to younger customers and SIM-Only users. The low up-front costs will make Company X more competitive, attract customers and could open up revenue streams such as recycling and re-selling old phones under new plans.

This is an attractive business model the team should consider.

Sources:

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