

BCG - Strategy Consulting Project

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Market Research

I've included my report for our client company, Company X regarding whether or not they should introduce handset leasing into their business model to drive profits. After doing some market research and looking at the analysts reports on impact of revenue and profits, my recommendation is that Company X should pursue handset leasing as a profitable business model.

Here are a summary of my findings and why I believe this will be profitable for Company X:

Competitors have done well introducing similar products

- For Sprint, their revenue from leasing plans increased by over \$1 billion from 3Q15 to 3Q16
- When SK Telecom leasing service launched, 25% of their new customers decided opted to rent

Handset leasing plans ensures customer affordability

- For SK Telecom, customers pay about 50% less over two years for a leasing plan than they would have had they paid to own their mobile device
- This could be popular among youth, as 28% of SK Telecom's subscribers in their 20s deciding to lease
- With increasing costs of newer technology

In conclusion, based on my research, handset leasing would be a profitable business move to attract customers who are looking to save on the amount they spend on owning a phone.

Sources:

1. Blog, Are smartphone rentals value for money? -
<https://www.mobileworldlive.com/devices/blogs-devices/blogs-handset-rentals-offer-surprising-value/>
2. Market Realist, Why Sprint Is Focusing on Handset Leasing to Accelerate Growth
<https://marketrealist.com/2017/04/why-sprint-is-focusing-on-handset-leasing-to-accelerate-growth/>
3. BCG, Playbook for accelerating 5G -
https://image-src.bcg.com/Images/BCG-A-Playbook-for-Accelerating-5G-in-Europe-Sep-2018_tcm9-202394.pdf

Data Analysis

In this analysis, I will be looking at the impact of introducing handset leasing versus not introducing handset leasing, by applying the industry average growth rates for Company A and Company B, to Company X.

Company A

Company A launched its first mobile handset leasing plans at the start of Year 1

It aims to make premium handsets more affordable to customers

Company A Financial Statement			
S\$ Million	Year 0 Total	Year 1 Total	Year 2 Total
Income Statement			
Operating revenue	\$ 8,537	\$ 9,233	\$ 9,670
Operating expenses	\$ (6,184)	\$ (6,270)	\$ (6,416)
EBITDA	\$ 2,353	\$ 2,963	\$ 3,255
Net interest expense	\$ (130)	\$ (143)	\$ (148)
Taxation	\$ 198	\$ 201	\$ 203
Depreciation & amortisation	\$ (743)	\$ (753)	\$ (759)
Net profit	\$ 1,678	\$ 2,269	\$ 2,550
Operating Revenue & Expenses Composition			
Mobile Service	\$ 2,812	\$ 3,375	\$ 3,690
Others	\$ 5,725	\$ 5,858	\$ 5,980
Operating revenue	\$ 8,537	\$ 9,233	\$ 9,670
Operating expenses	\$ 6,184	\$ 6,270	\$ 6,416
Mobile Subscribers ('000s)			
ARPU*	57	67	70

Company B

Company B operates in the same market as Company A, and has not launched leasing plans

Company B Financial Statement			
S\$ Million	Year 0 Total	Year 1 Total	Year 2 Total
Income Statement			
Operating revenue	\$ 8,784	\$ 9,033	\$ 9,006
Operating expenses	\$ (6,153)	\$ (6,372)	\$ (6,470)
EBITDA	\$ 2,631	\$ 2,661	\$ 2,536
Net interest expense	\$ (158)	\$ (194)	\$ (189)
Taxation	\$ (356)	\$ (341)	\$ (305)
Depreciation & amortisation	\$ (1,416)	\$ (1,507)	\$ (1,469)
Net profit	\$ 2,117	\$ 2,126	\$ 2,042
Operating Revenue & Expenses Composition			
Mobile Service	\$ 5,465	\$ 5,641	\$ 5,764
Others	\$ 3,371	\$ 3,363	\$ 3,102
Operating revenue	\$ 8,784	\$ 9,033	\$ 9,006
Operating expenses	\$ 6,153	\$ 6,372	\$ 6,470
Mobile Subscribers ('000s)	9,106	9,281	9,324
ARPU*	50	51	52

Growth (%)	Industry Average			
	Year 1	Year 2	Average	Notes
Mobile Services	5.46%	2.25%	3.85%	Average industry growth for mobile subscribers at 2.03%
Mobile Subscribers ('000s)	2.16%	1.91%	2.03%	
	Company A			
	Year 1	Year 2	Average	Notes
Mobile Services	8.15%	4.73%	6.44%	
Mobile Subscribers ('000s)	2.69%	5.10%	3.90%	
	Company B			
	Year 1	Year 2	Average	Notes
Mobile Services	2.84%	-0.30%	1.27%	Company B is growing below the industry average with absence of handset leasing
Mobile Subscribers ('000s)	1.19%	1.19%	1.19%	

Key Comparables	Industry Total			
	Year 1	Year 2	Average	Notes
Operating Revenue Growth	5.46%	2.25%	3.85%	Industry average comparables used to compare Company X's performance
Net Profit Growth	15.79%	4.51%	10.15%	
ARPU	\$55.75	\$57.37	\$ 56.56	
Market Share (%)	Company A			
	Year 0	Year 1	Year 2	Notes
Mobile Service	33.97%	37.43%	39.03%	

ARPU*	\$57	\$67	\$70	Higher growth in ARPU than company B
Market Share (%)	Company B			
	Year 0	Year 1	Year 2	Notes
Mobile Service	66.03%	62.57%	60.97%	Decrease in overall & mobile plan market share, due to absence of leasing.
ARPU*	\$50	\$51	\$52	Lower growth in ARPU than company A

* Average Revenue Per User

Company X

Company X has not launched leasing mobile plans. The following is a forecast of the impact leasing handsets will have.

Company X Financial Statement (handset leasing implemented)				
S\$ Million	Year 0	Year 1	Year 2	Notes
	Total	Total	Total	
<u>Operating Revenue & Expenses Composition</u>				
Mobile Service	\$ 1,354	\$ 1,441	\$ 1,534	Assume 6.44% growth as per comparable Company A.
Others	\$ 1,008	\$ 1,008	\$ 1,008	
Operating revenue	\$ 2,362	\$ 2,449	\$ 2,542	
Growth rate		3.69%	3.79%	Net growth of 3.74% in operating revenues, slightly below industry rate of 3.85%

Operating expenses	\$ 1,796	\$ 1,862	\$ 1,933	Assume constant expense ratio

Mobile Subscribers ('000s)	2,341	2,432	2,527	Assume 3.90% growth as per comparable Company A.
ARPU*	48	49	51	ARPU of X is below industry average of \$56.50 but shows positive growth

<u>Income Statement</u>				
Operating revenue	\$ 2,362	\$ 2,449	\$ 2,542	Derived from operating figures above
Operating expenses	\$ (1,796)	\$ (1,862)	\$ (1,933)	
EBITDA	\$ 566	\$ 587	\$ 609	
Net finance expense	\$ (27)	\$ (27)	\$ (27)	
Taxation	\$ (45)	\$ (45)	\$ (45)	
Depreciation & amortisation	\$ (294)	\$ (294)	\$ (294)	
Net profit	\$ 200	\$ 221	\$ 243	
<i>Growth</i>		10.38%	10.06%	10.06% - 10.38% annual growth. Slightly higher than industry average of 10.15%

Company X Financial Statement (handset leasing not implemented)				
S\$ Million	Year 0 Total	Year 1 Total	Year 2 Total	Remarks
Operating Revenue & Expenses Composition				
Mobile Service	\$ 1,354	\$ 1,406	\$ 1,460	Assume 3.85% growth as per Industry Average.
Others	\$ 1,008	\$ 1,008	\$ 1,008	

Operating revenue	\$ 2,362	\$ 2,414	\$ 2,468	
Growth rate		2.21%	2.24%	Net growth of 2.22% in operating revenues, significantly below industry average of 3.85%
Operating expenses	\$ 1,796	\$ 1,836	\$ 1,877	

Mobile Subscribers ('000s)	2,341	2,389	2,437	Assume 2.03% growth as per comparable industry average.
ARPU*	48	49	50	Without leasing, ARPU grows more slowly than with leasing

Income Statement				
Operating revenue	\$ 2,362	\$ 2,414	\$ 2,468	Derived from operating figures above
Operating expenses	\$ (1,796)	\$ (1,836)	\$ (1,877)	
EBITDA	\$ 566	\$ 578	\$ 591	
Net finance expense	\$ (27)	\$ (27)	\$ (27)	
Taxation	\$ (45)	\$ (45)	\$ (45)	
Depreciation & amortisation	\$ (294)	\$ (294)	\$ (294)	
Net profit	\$ 200	\$ 213	\$ 226	
Growth		6.19%	6.10%	6.10%-6.19% annual growth. Much lower than industry average of 10.15%