

Driving Internet Adoption in Developing Markets and the Role of Mobile Carriers: A Philippine Case Study



A Globe / Facebook Whitepaper

March 2015

Executive Summary

Internet adoption has been increasingly seen as one of the key drivers in driving social and economic growth, particularly for developing countries. According to a Deloitte study in 2014¹, Internet access can promote long-term productivity, better health, and improved literacy. The World Bank estimates that a 10% increase in broadband penetration results in a 1.38% increase in a country's GDP.

Companies around the world have begun to take notice. In August 2013, Facebook launched Internet.org, an initiative bringing together technology leaders, nonprofits and local communities to connect the two thirds of the world that doesn't have internet access.

At the same time, mobile carriers in emerging markets have started to realize the large role that they can play in driving this adoption. Globe Telecom, a leading telecommunications provider in the Philippines, has committed to bringing connectivity to over 100 million Filipinos, and has strived to be the leading mobile provider for their customers' Internet-driven digital lifestyle.

This paper serves as a case study on the remarkable increase in Internet adoption in the Philippines since 2007 and the role of mobile carriers, specifically Globe Telecom (Globe). The first half of this paper examines the Philippines as an emerging market for Internet usage and discusses recent trends and milestones in the local telecommunications space, including the rollout of 3G data infrastructures and rapid smartphone adoption.

The second half of the paper illustrates the importance of strategic partnerships between mobile carriers and digital content providers by highlighting the collaboration between Globe and Facebook. The paper covers the details of the "Free Facebook" campaign for Globe users and the short- and long-term benefits of such a partnership. Globe's Free Facebook campaign added six million incremental mobile data users in the Philippines and resulted in a number of commercial benefits for the company.

¹ Value of Connectivity (<http://www.internet.org/press/value-of-connectivity>)

The Philippines: A Paradigm for Connectivity Growth

Fundamentals: Regulation and economic growth

In examining the drive for Internet adoption in developing markets, the Philippines presents a good example, having a relatively young population and ranking among the world's top users of social networking sites. From 2008 through 2012, Internet users in the Philippines grew by 500%,² due in large part to key milestones in the telecommunications industry as well as the country's recent economic growth.

Government support for telecommunications played a big part in driving Internet adoption. In 2005, the National Telecommunications Commission (NTC) began allocation of spectrum licenses, where operator performance played a key role in allocation. In 2006, the Commission for Information and Communications Technology (CICT) drafted an Information and Communications Technology (ICT) roadmap³ to connect the country, with a multi-stakeholder approach with initiatives to provide community access and low cost computing, and the provision for a national broadband plan.

At the same time, the Philippines experienced strong economic growth from 2006 through 2012 with GDP growing 4% annually. An estimated 67% of the Philippines is below 35 years of age,⁴ providing a critical mass of young, tech-savvy early adopters.

In parallel, massive strides were made in network infrastructure to meet demand. 2006 saw the leading mobile carriers commence the upgrade of their 2G sites into 3G. At the same time, competition among mobile carriers drove down prices, improved network quality and led to development of innovative content partnerships.

² Internet Penetration in Southeast Asia: Five-Year Growth Trends, 2008-2012 (<http://www.tigermine.com/2013/10/04/internet-penetration-southeast-asia-growth-2008-2012>)

³ Philippine ICT Roadmap Draft (<http://wsisfma.gn.apc.org/files/ICTRoadmap.pdf>)

⁴ Philippine Statistics Authority, Projected Populations by Five-Year Age Group and Sex, by Region and Province, and by Five-Calendar Years: 2000-2040

A Strategic Investment in Infrastructure: Globe's 3G Rollouts

In 2006, Globe began a nationwide initiative to upgrade its existing cell towers from 2G to 3G. The upgrade aimed to give its customers more consistent quality of service and faster data transfer speeds.

However, in 2011, Globe took an ambitious step and embarked on a massive network modernization and IT transformation program. Instead of proceeding to build on legacy infrastructure, Globe swapped-out all existing 2G and 3G infrastructure with new equipment, activated cell site 3G and HSPA+, and migrated its core. The company also built new sites to strengthen and increase coverage areas, installed submarine and inland fiber, and built data capacity to improve quality of service to support the increase in data usage. These responded precisely to the challenges of globalization, the explosion of data traffic and the demands brought about by the smartphone era.

The initiative entailed capital investments of about \$800 million over five years, which were deemed necessary to build a steady infrastructure base to support Globe's growth momentum. The program was by far the largest scale network upgrade in Globe's history and, while risky, resulted in improvements in call quality, SMS delivery times, speed, coverage, and network availability and reliability. Subscribers grew by 47% from the time of the rollout to 3Q 2014, while total data revenues saw explosive growth at 605% quarter-on quarter, 3Q 2011 vs. 3Q2014.

The Rise of Affordable Smartphones and Evolving Customer Demand

At the heart of the demand for faster network speeds and more digitally-inclined habits is the device that consumers use. As competition among device manufacturers intensified, smartphones became more ubiquitous in the market and the range of affordable smartphones available to users grew. From 2011 to 2013, smartphones costing PHP 5,000 (\$113) or less jumped from 2% of

sales to 38%⁵. In the same period, smartphone unit sales as a percentage of total mobile phone unit sales in the Philippines jumped from 14% to 50%⁶.

Mobile carriers, led by Globe, reacted to the device trend by improving their mobile data user experience and content offerings. Globe entered into digital partnerships with Google (Free Zone), Spotify and Viber. One of the first and most significant digital partnerships to take place was the Globe-Facebook partnership launched in 2013.

“Free Facebook”: An Onramp to the Internet

Customer awareness of the value of Internet services is a key barrier to adoption in the Philippines and throughout the world. Globe needed to educate customers on the value of data via content offerings, and there was no better avenue to do this than Facebook. Filipinos love Facebook – over 90% of Internet users in the Philippines are on Facebook. Filipinos, Globe realized, may not have understood MBs, but they definitely understood FB.

With this in mind, Facebook and Globe launched the “**Free Facebook**” campaign in October 2013. The campaign would jumpstart internet usage in the Philippines by offering free access to Facebook. All Globe subscribers – new and existing – could opt-in to unlimited Facebook on mobile. After the trial, subscribers would upgrade to paid data plans to maintain the richer internet experience and stay connected with friends and family.

Globe ran two phases of the Free Facebook program. The first phase ran from October 2013 to April 2014. Based on the positive results from the first campaign, Globe ran a second phase from October 2014 to November 2014.

Facebook: An Onramp to the Internet

The Free Facebook program significantly increased Globe’s subscriber base and internet penetration in the Philippines. Over the course of the first phase, the number of data users on

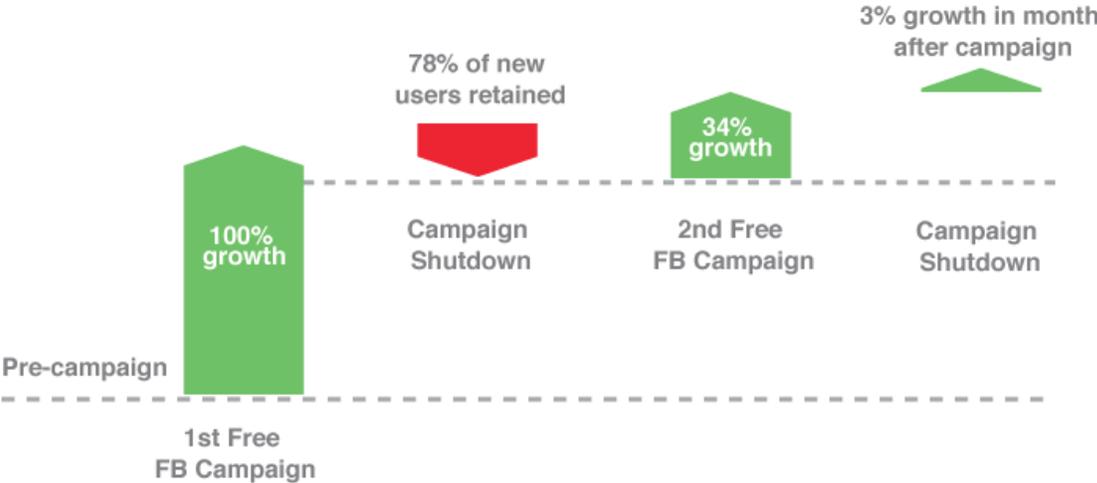
⁵ GfK Telco Panel Report

⁶ GfK Telco Panel Report

Globe’s network doubled, and the portion of Globe’s prepaid subscriber base who were active on mobile data leapt from 14% in September 2013 to 25% in November 2014.

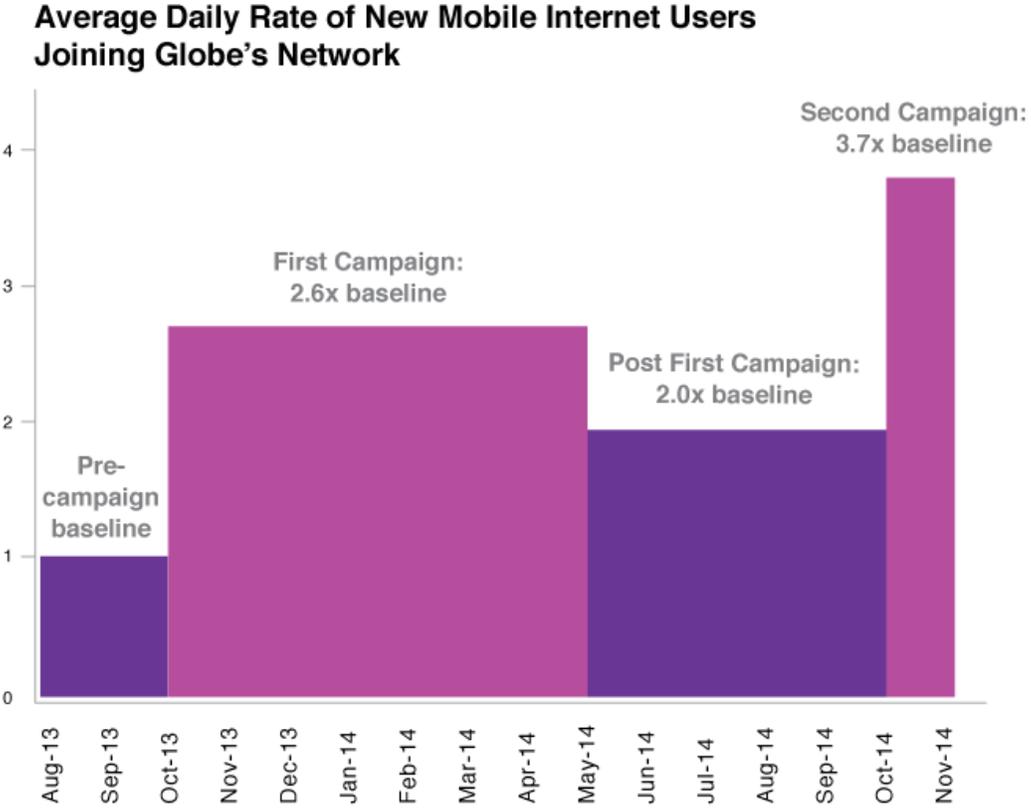
Mobile data subscribers on Globe’s network

Net 110% growth over course of two campaigns



While people in emerging markets often utilize mobile services from multiple mobile carriers (“Multi-SIMing”), they tend to only have a single Facebook profile. In countries like the Philippines, where a large majority of internet users are on Facebook, the number of new Facebook accounts on a mobile network acts as a reliable proxy for the number of new mobile internet users.

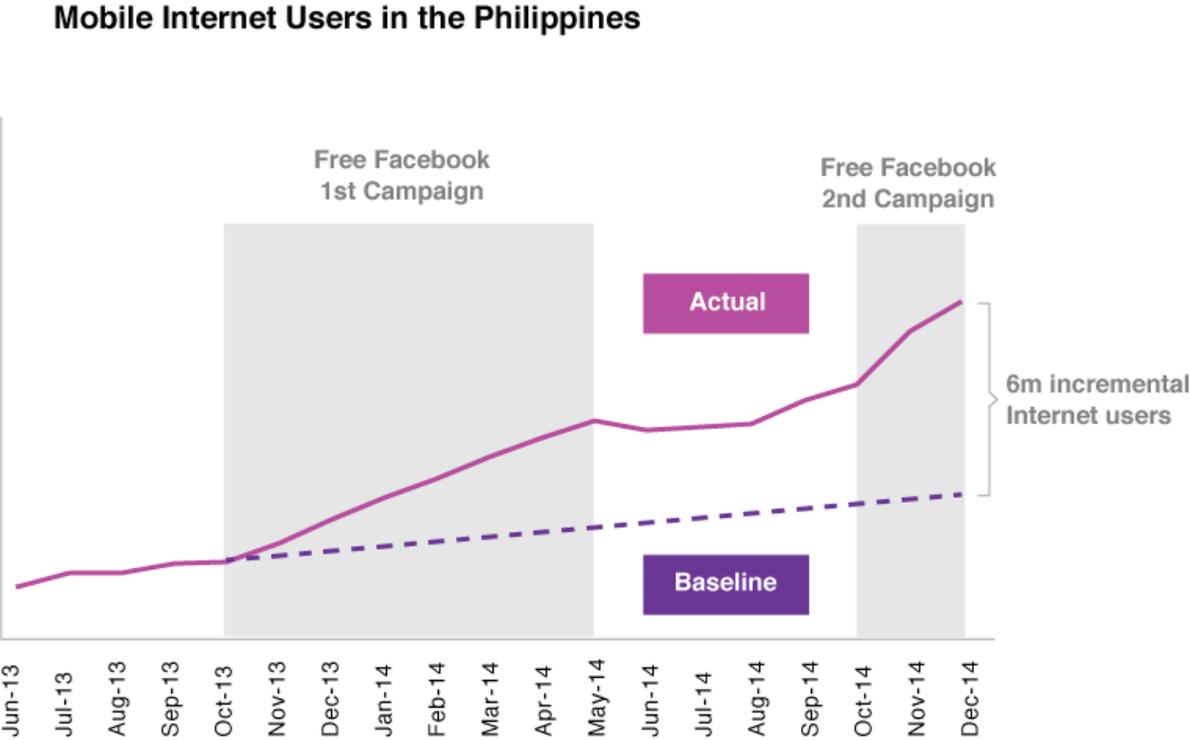
The figure below shows the rate of new Facebook users⁷ joining Globe’s network. We believe that majority of these are new mobile internet users.



The Free Facebook campaigns had a *dual-impact* on the rate of new people joining the Internet in the Philippines. First, the campaigns drastically increased the rate of new Internet users joining Globe’s network (2.6x quicker during Phase 1 and 3.7x quicker during Phase 2). The second, and perhaps more surprising, is that the Phase 1 campaign resulted in a *step-change* of new people joining the Internet in the Philippines. Even after the free Facebook campaign ended in April 2014, users continued to join Globe’s network at a 2x rate of the pre-campaign baseline. The campaigns had an *enduring impact on the rate of Internet adoption in the Philippines*, even when access to Facebook was no longer free.

⁷ Excluding mobile Wifi usage

Relative to a pre-campaign baseline, Globe’s Free Facebook campaign (and similar internet outreach efforts by other players in the market), led to a 6M increase in the number of active mobile internet users in the Philippines.⁸



Commercial Benefit for Globe: New Data Users and Increased Engagement

Benefit 1: New subscribers on the network

Free Facebook is a compelling draw to any mobile network. In a competitive and fluid mobile market such as the Philippines, a well-designed campaign can result in a boon of new subscribers. The Free Facebook campaigns fueled Globe’s new subscriber acquisitions during late 2013 and 2014 and drove gains in overall market share.

During Phase 1, Globe’s user base increased by 17%. Along with continuing to use data, these users also shifted core telco spend over to Globe’s network, growing voice and SMS revenues by 5%.

⁸ As measured by new people seen on Facebook properties

Benefit 2: Growing data subscribers on network

In addition to drawing new subscribers onto the network, one of Globe's core goals for the campaign was to convert existing non-data subscribers on their network into consistent data users. By the end of the first campaign, prepaid mobile data users grew from 4.8M to 9.7M, more than a twofold increase.

Benefit 3: Increasing long-term data usage and ARPU

As customers become accustomed to mobile data, they develop usage habits and find convenience in ubiquitous internet. During Phase 1, ARPUs remained relatively constant, since Globe zero-rated Facebook data usage. However, the succeeding quarter saw a 34% jump in ARPU, as customers became more willing to pay for the experience.

Benefit 4: New comfort with paid data

In the Philippines, free WiFi is a tough competitor to mobile data. Filipino families will visit shopping malls on the weekend to take advantage of free WiFi, which for many can be their only access to the Internet. The Free Facebook campaign made a significant dent in WiFi-only Internet usage. The percentage of Filipinos who access Facebook only from WiFi (and never from a mobile data network) decreased from 38% at the start of the Free Facebook 1 campaign to 17% at the end of Free Facebook Phase 2. More Filipinos have become comfortable with paid data and have weaned themselves off WiFi, giving them the ability to experience the Internet anytime and anywhere.

Overall, these factors combined to produce a step-change in Globe's data revenue. Comparing 3Q 2013 (pre-Free Facebook Phase 1) to 3Q 2014 (post-Free Facebook Phase 1) saw a 58% increase in mobile browsing revenue on Globe's network.

Success Factors for the Partnership

Three implementation factors contributed to the success of the partnership.

I. 360 marketing campaign

Globe launched a nationwide campaign to promote the “Free Facebook” offer, driving strong brand awareness and activations. The company promoted the service across major television networks and radio. High-traffic areas, such as national thoroughfares, train stations, and shopping centers, were targeted for out-of-home placements and billboards. The company also went direct to customer, running caravans in its stores, schools and public areas such as parks to encourage trial and continued usage of the service. Lastly, a strong digital strategy helped drive further growth. Globe had a well-developed digital media plan, from launch to sustaining usage and conversion. Globe ran its promotional placements across multiple high-traffic channels, such as Google’s Display Network, and developed a Canvas App with Facebook to serve as a landing page for its online promotions.

II. Customer education

One of the keys to driving mobile data usage in a country unfamiliar with the service is via direct customer education. Globe’s challenge was to drive mobile data penetration in a market with pervasive free WiFi. Thus, the company highlighted the promo as free, while also educating customers directly on how to activate the service and what they could do with it. Customers were also taught how to configure their mobile devices including setting up synchronization settings for other applications. Lastly, customers would still have access to Facebook despite having zero prepaid credits, letting them enjoy the experience without fear of unwanted spend.

III. Partnership governance

Globe and Facebook set up a formal governance structure to provide oversight over the program. The setup was designed to allow for quick decision-making despite the project’s scale. A Steering Committee led by Globe’s Chief Operating Advisor met each week to review results and resolve any issues hampering the campaign. This allowed for immediate resolution of issues around network capacity, enabled data sharing between the organizations, and provided avenues to discuss marketing effectiveness and technical blockers. Both organizations contributed knowledge and expertise to ensure the partnership’s success.

Growing for the Next Billion Users

The Philippines story shows the potential for market players to increase internet penetration for the next billion without sacrificing commercial value.

Increased internet adoption and upgrades to network infrastructure will enable telcos to offer not only mobile data services, but also innovative products to improve customer lives, such as mobile money, mobile ads, and new content via partnerships.

For telcos to tap this opportunity, they will need to adopt strategies fit for the next billion users.

I. Driving internet adoption through relevant services

Because customers may not be familiar with mobile data, understanding local needs and forming the right partnerships to provide relevant content and services will be key. Telcos should take care to pick the right introductory services such as social networking, messaging, and content. Additionally, introducing products via a free-to-paid route can educate customers about what services are available, while building engagement that will drive future growth.

II. Building a network infrastructure that provides a high-quality customer experience

There are basic requirements that will be necessary to ensure the delivery of high-quality experiences to customers, especially in countries with underdeveloped networks and unfamiliar users. These may include fixing APNs, building the capability to monitor background data usage, developing APIs for 3rd party billing, and transitioning from time-based to volume based charging, supported by real-time consumption notifications available on multiple platforms.

III. Aligning digital strategy with regard to developing market conditions

Telcos and their partners need to adapt their services to developing market conditions and users. Partners should develop apps optimized for low-end devices and capable of operating on lower performing networks than found in Western markets. Telcos and the partners should also work together to make offers, especially free ones, commercially sustainable in the long-run.

The Globe-Facebook partnership centered on these principles, and resulted in millions of new customers being introduced to mobile data services, while providing commercial value to Globe. Executing on these strategies will be key for telcos in the coming years to capture the next billion internet users and improve the quality of life of people around the world.

Contact

Globe Telecom:

Bennett S. Aquino (bsaquino@globe.com.ph)

Jules Isaiah G. Jurado (jjurado@globe.com.ph)

Facebook:

Operator Solutions (Operators@fb.com)