

How an effective top-up strategy can improve operator performance metrics and accelerate mobile payments

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About this Paper

- This paper summarizes about the Western European prepaid market.
- Based on industry research and mobile operator interviews, the study focused on prepaid top-up and how different top-up approaches impact operator performance metrics.

The Market Opportunity

- Consumer market trends and primary research show growing and unfulfilled end user demand for direct operator top-up; i.e. non-cash top-up through the operator web site, handset functions or an IVR.
- According to analysis, direct operator top-up enables operators to reduce channel cost, increase revenues and improve subscriber loyalty. This makes it the most profitable top-up approach compared to the alternatives of retail top-up and bank top-up.
- Examples from operators using best-in-class direct operator top-up services show double digit revenue gains and similarly reduced cost. [Q](#) estimates that Western European operators could thus improve prepaid profitability by hundreds of millions of Euro annually.

Conclusions

- In order to monetize this opportunity, operators should audit their existing top-up solutions and focus on operator direct top-up channels, such as their web site or the mobile phone. These channels allow for a customized, branded and cost-efficient service delivery
- This strategy also supports positioning direct operator top-up as part of a common m-payment platform that can deliver a consistent user experience across own and third party m-payment services.

1. Prepaid in Western Europe: Services & Payments Go Online

Analysts predict that Western European prepaid revenues will peak in 2009 and slowly decline from there on.ⁱ Responding to this trend, operators see the need to:

- Reduce cost throughout the organization, incl. prepaid distribution channels
- Find new revenue sources e.g. by launching new tariffs or data services
- Grow customer loyalty aided by CRM measures.

In parallel, market trends impact the business:

- Consumers are increasingly used to being “connected” anytime, anywhere.ⁱⁱ
- Credit & debit card usage climb as evidenced by increased revenue and card penetration reported by MasterCard & Visa.ⁱⁱⁱ

Most operators interviewed agree that the development of top-up services should align with these trends by putting higher emphasis on top-up transactions in a non-retail environment.

2. Consumer Demand Shifting Towards Direct Operator Top-Up

Operators can design their top-up strategy using a combination of three approaches:

- Retail top-up
- Bank top-up, using ATMs or online banking services
- Direct operator top-up, using non-cash channels such as the operator web site, IVRs or custom-made handset applications.

Despite the growth of online services and card payments, over 60% of prepaid top-ups in Western Europe still happen in retail.

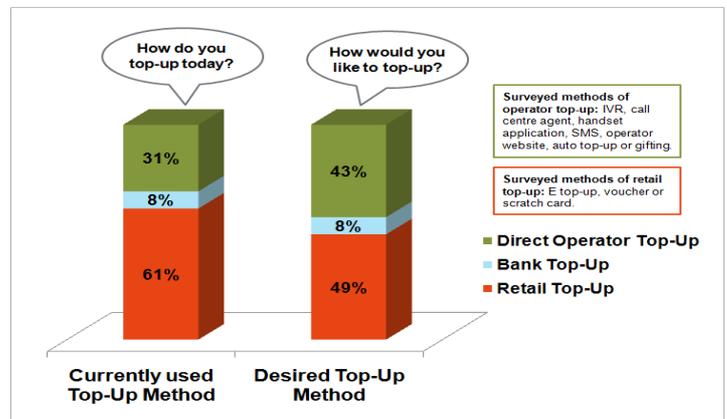


Figure 1: Consumer Survey of Top-Up Methods in the UK

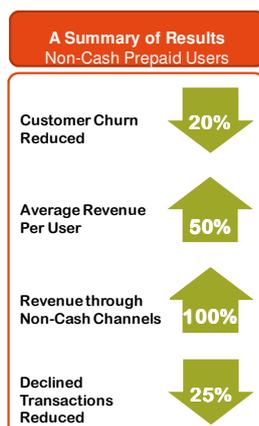
However, research (fig. 1) shows unfulfilled demand for direct operator top-up which creates potential for operators to grow their involvement in delivering non-cash top-up services.

Comparing the three top-up approaches shows that direct operator top-up is best suited to satisfy operator objectives of cost reduction, revenue growth and customer loyalty management.

Compared to bank top-up, direct operator top-up provides advantages in three areas:

- Subscriber reach and availability, due to the ubiquity and accessibility of virtual channels
- Ease of use enabled by harmonized and operator-designed service interfaces
- CRM potential based on analyzing data gathered during top-up processes.

3. How Direct Operator Top-Up Can Improve Performance Metrics



Case studies show that measures in the area of direct operator top-up can lead to double-digit gains in performance metrics due to:

- **Lower top-up costs** due to automated channels and lower commissions
- **Higher prepaid revenues** as top-up frequencies increase, and users top-up other subscribers' accounts (gifting)
- **Returning users** due to higher convenience and choice of channels.

Although many operators offer direct top-up, most services lack channel options, feature support or user friendliness. Addressing these areas will also lead to a shift in usage from bank top-up to operator top-up and generate further performance metrics improvements.

Quantifying this potential of revenue growth and cost savings, ^{iv} estimates that Western European operators could improve prepaid profitability by hundreds of millions of Euro annually.

4. Cornerstones of a Successful Direct Operator Top-Up Service

Over 80% of interviewed operators see the bulk of non-cash top-up occur in bank channels.

All operators interviewed intend to grow the usage of their direct channels. This creates the need to better understand the building blocks of a solution for direct operator top-up (fig. 2) and identify gaps in the current service.

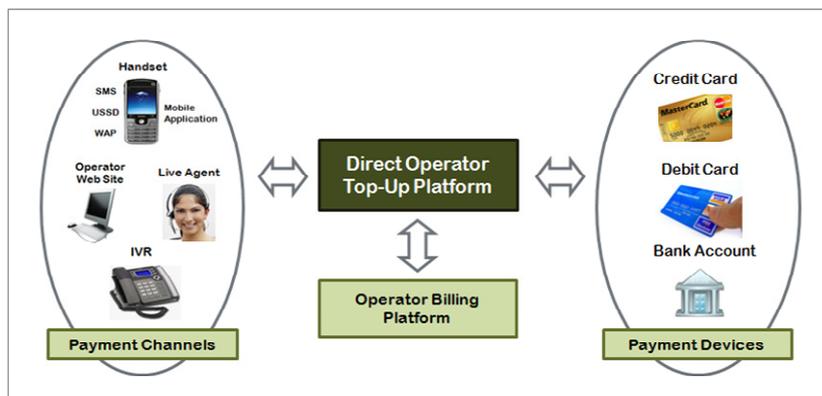


Figure 2: Direct Operator Top-Up Solution Featuring Handset-Based Top-Up

Among new initiatives being evaluated are top-up applications resident on the handset. Early roll-outs indicate that handset-based top-up applications boost top-up frequency and ARPU.

Apart from their potential provide a customized and user-friendly top-up experience, such applications support CRM measures and allow for expansions in the m-payment space.

5. Key Capabilities of a Best-In-Class Operator Top-Up Solution

The analysis has identified eight key solution capabilities that operators should possess in order to exploit the full potential of direct operator top-up:

1. Wide choice of payment channels
2. Maximum acceptance of payment devices
3. A customer experience that reaches the right balance between openness and risk management
4. Efficient and real-time fraud detection & risk management
5. Seamless order processing & funds transfer ensuring swift crediting of both the operator and prepaid subscribers
6. Payment data security compliant with industry standards

7. Reporting & CRM capabilities
 8. Quality assurance & service level agreements
- It recommends operators to perform an audit of their existing non-cash top-up solution in order to identify to what extent it supports the business requirements of each capability.

Such a review would typically start with a customized definition of solution requirements based on a market analysis. Comparing the current solution's capabilities and costs to the required capabilities allows for a gap analysis and a revised top-up strategy.

As a result, action can be taken to focus on direct operator top-up channels and bring the top-up solution closer to best-in-class performance.

6. Direct Operator Top-Up: A Foundation for M-Payments

Despite projections of steady market growth, most operators are taking a "wait-and-see" approach towards m-payments. According to the analysis, this means neglecting key business risks and opportunities:

- Handset-based top-up is one of the most viable m-payment services that can be offered in the short term.
- Operators can expand handset-based top-up applications by adding m-payment services

such as remittance, ordering tickets or purchasing digital and physical goods.

- M-payment services can be operator-branded or delivered by third parties. The growing number of third parties (app stores, VoIP, media downloads, etc.) creating own payment accounts shows that operators without an m-payments strategy risk losing control of end user billing relationships.

Fig. 3 illustrates how an m-payment solution enables a common and operator-branded payment experience across different applications and end user devices.

While many applications will be operator-owned, others may be delivered by third parties taking advantage of the ease of use and the ubiquity offered by the m-payment service. Top-up applications resident on the handset can be a key enabler of these advantages.

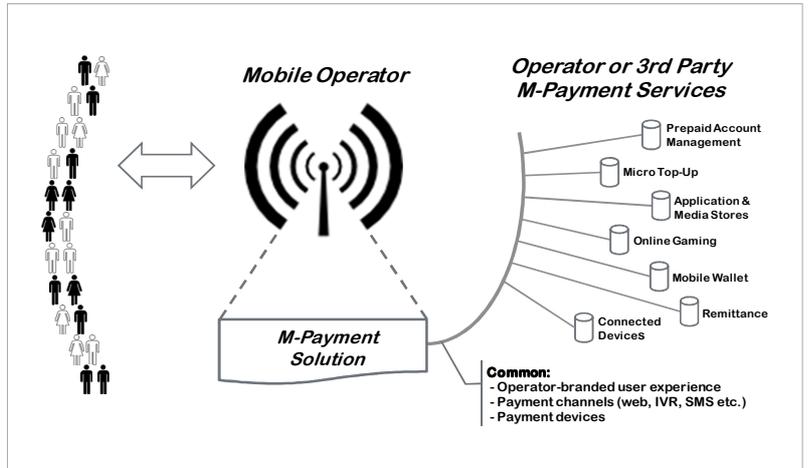


Figure 3: Many Services - One M-Payment Solution

This huge potential of m-payments further emphasizes the motivation for operators to promote those top-up approaches that they control - the above-discussed direct operator top-up channels. A customized user experience that

is well-aligned across the payment channels offers one process to load any value on the network – a proposition that is appealing not only to end users, but also many third parties.