

# Time to Top-Up the Prepaid User Experience

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

## Executive Summary of Northstream White Paper

*Based on primary research with mobile operators*

June 2009

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### **About this Paper**

- This paper summarizes the results of a Northstream study about the Western European prepaid market. The full results are covered in a Northstream white paper of the same title.
- 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 Northstream's 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. Northstream 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.<sup>i</sup> 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.<sup>ii</sup>
- Credit & debit card usage climb as evidenced by increased revenue and card penetration reported by MasterCard & Visa.<sup>iii</sup>

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.

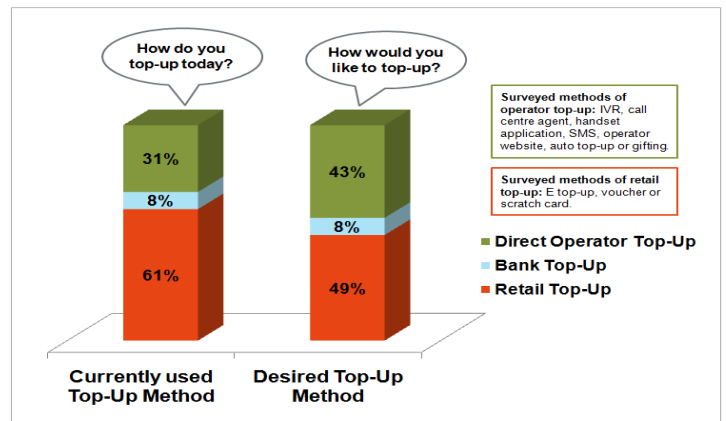


Figure 1: Consumer Survey of Top-Up Methods in the UK

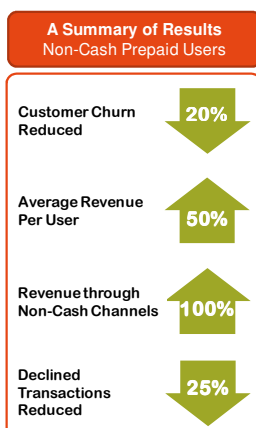
However, research (fig. 1) shows unfulfilled demand for direct operator top-up which creates potential for operators to grow their involvement in delivering non-cash top-up services.

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, Northstream 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.

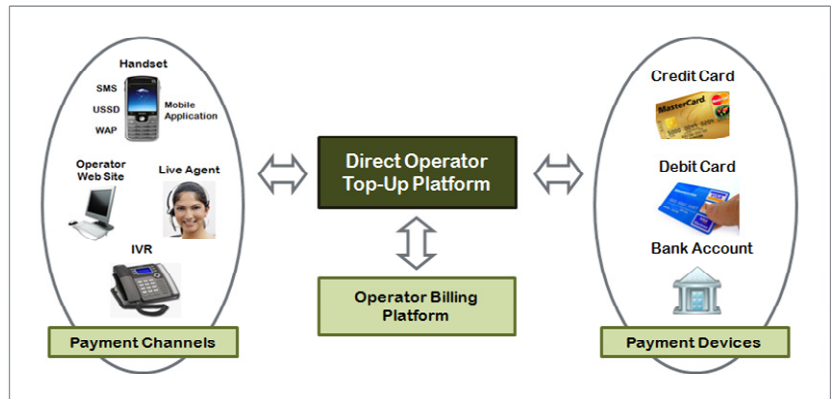


Figure 2: Direct Operator Top-Up Solution Featuring Handset-Based Top-Up

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

Northstream's 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

Northstream 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 Northstream's 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.

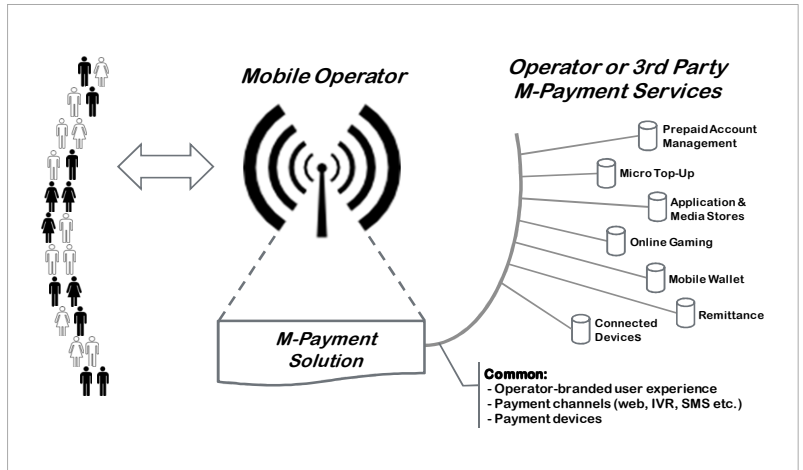


Figure 3: Many Services - One M-Payment Solution

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.

### Northstream – Strategy and Sourcing

This study was researched and authored by Northstream, an independent telecoms consulting firm. The work was commissioned by Vesta Corporation, a global provider of electronic payment solutions.

Founded in 1998, Northstream provides business and technology advice to the telecom and media industries. We help our clients through independent and objective analyses,

problem-solving and support that are tailor-made to the client's situation. Our work is based on a well-balanced combination of innovation, industry best practices and proven methodologies.

Contact us to learn more about how we can work together in order to improve your prepaid performance metrics through innovative payment solutions.

Strategy and Sourcing  
www.northstream.se

References:

- <sup>i</sup> Yankee Group, Prepaid Global Mobile Forecast
- <sup>ii</sup> A survey in Germany revealed that 85% of people between 12 – 24 years spend an average of two hours per day online. Source: Landesanstalt für Medien NRW
- <sup>iii</sup> Visa's 2008 European sales grew by 10% to 993 bn€, while MasterCard achieved a 15% increase to 201 bn€

Sources of the figures:

- 1. Prepaid Consumer Top-Up in the UK, BMRB / Vesta Corporation Research
- 2. Northstream
- 3. Northstream