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Global economic crisis may force operators to pay fresh attention to prepaid offerings



By Michèle Scanlon, principal consultant at Green Giraffe, Cape Town/ Paderborn, February 2009

Despite 70% of the world's 3.8 billion mobile customers being prepaid, mobile operators have always continued to pursue growth in their respective contract subscriber bases favouring the regular subscription income over the less predictable revenues and frequency of the prepaid top up.

However as the global economic crisis looks set to continue, the industry is beginning to feel the impact of declining consumer spend on telecommunications services in both developed and developing markets.

Many operators have never quite understood why a prepaid customer would voluntarily choose to be a prepaid customer when it could qualify to be a contract customer. These operators have used premium tariffs on prepaid plans and subsidised phones on contract plans as two basic incentives to shape take-up towards contract services. However at no other time since the launch of prepaid mobile services in 1994, has the budgetary element of a prepaid plan been of more critical value to the average consumer than in the current economic climate when self-regulating budgetary control is being sought to curb and monitor spend levels on basic goods and services.

How to retain customers and drive their spending

Already the Philippines, a de facto global mobile prepaid benchmark market, has seen a decline in household expenditure from 5.6% in Q3 2007 to 3.4% in Q3 2008. The economy is closely linked to the flow of remittances from Overseas Filipino Workers (OFWs) who are usually based in strong developed market economies, most of which have suffered from the global 'credit crunch'.

Similarly developed markets have suffered a slow down in spend. For example, in Spain, operators have reported a 40% decrease in frequency of monthly prepaid topups linked to customers curbing spending. The challenge for mobile operators now is to retain customers and drive consumer spending through loyalty initiatives and promotional triggers to stimulate recharge spending levels.

The Filipino market has also experienced an increase in postpaid churn rates while gaining new prepaid customers suggesting that customers are migrating from postpaid to prepaid for budgetary reasons. In other similar emerging markets a culture of 'disposable SIM cards' can arise whereby low-income customers only use the prepaid SIM until expiration of initial airtime, thereafter disposing of the SIM and acquiring a new one when further income is available.

The resultant impact is increased cost of acquisition for the mobile operator. The challenge for the operator now is to create brand loyalty and to be more innovative and flexible in its service offering to meet the needs of such customers.

Simplicity and transparency for prepaid vs. value for fixed monthly spend over

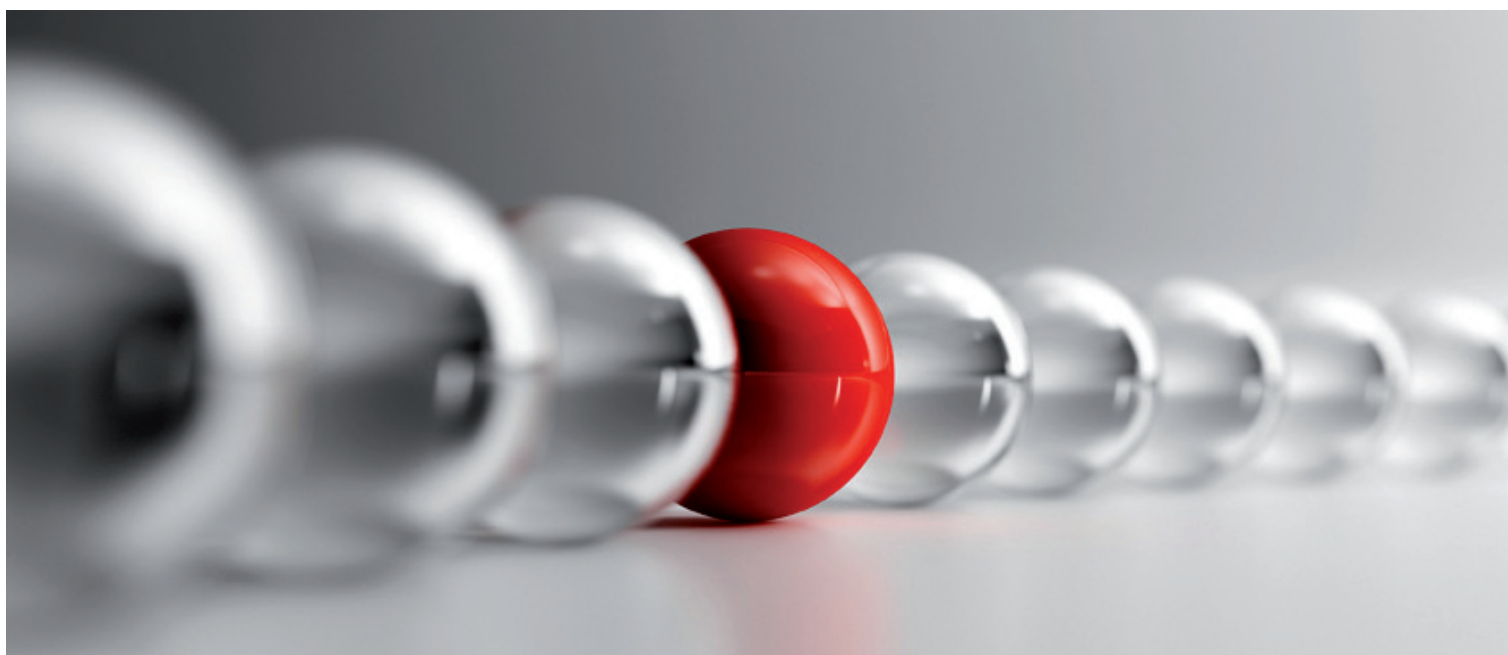
Prepaid customers favour simplicity and transparency in pricing mechanisms, and this is now more relevant than ever to aid in budgeting mobile spend with customers favouring fixed monthly rates providing the transparency and budgetary control they are seeking. Mobile operators may do well to shift away from headline per minute and per second rates to focus on how much value a customer can get with a fixed monthly spend level.

In the USA, one of the worst affected markets of the global crisis, consumer groups have been sharing advice on 'how to cut the family cellphone bill in half', and one of the foremost strategies advised by the non-profit group, Telecommunications Research & Action Center, is to switch to a prepaid plan.

Prepaid customer uptake appears to reflect this sentiment with the likes of T-Mobile USA experiencing a 26% increase in prepaid net additions in Q3 2008 over that seen in Q3 2007, and double that of Q2 2008. Additionally the operator faced increases in postpaid churn. This in a market where prepaid only accounts for 15% of all its mobile customers, thus all the US operators had better get used to targeting prepaid customers as it seems to become a growth area.

However it is also worthwhile noting that there are other industries faring worse than telecoms in terms of consumer spend, and whilst consumers may want to curtail spending habits, they are continuing to talk and use mobile services.

Forbes.com reviewed five spending areas most affected by declining spend by existing mobile customers including eating out less (88%), holding off on large purchases including cars, electronics & furniture (79%), using cars less frequently (57%), purchasing less groceries (41%) and spending less on the mobile phone (32%) indicating that mobile phone spend, whether on a prepaid or contract basis will continue, albeit at declining levels.



Prepaid offers customers a valuable budgetary tool

In Q3 2008, mobile customers have exhibited cautionary tendencies and the mobile industry will need to encourage them to spend more of their limited disposable income with them rather than for services in other industries who are bidding for their own share of the same wallet.

Perhaps operators need to express this sentiment with their customers through appropriate tariff offerings. For example, building on the old BT slogan of "It's good to talk", operators can emphasize the importance of family and community in troubled times, and reflect this with preferential group calling rates, or provide free calls to one on-net number to the same value of the next prepaid recharge, thus encouraging continued usage and ongoing spend.

After price, service differentiation will also become more important as a factor in network selection as customers want to feel valued for the amount of hard-earned money that they are spending with a service provider. Thus brand values and personal communication with a customer will help influence a prepaid customer's perception.

1-to-1 marketing will prove to be more effective a tool in this climate by providing personalised offers to stimulate impulse purchasing by the prepaid customer.

Mobile operators need to face up to the reality of the impact of the economic crisis on the spending power of their customers, and accept that prepaid offers these customers a valuable budgetary tool. Whilst prepaid spend may be lower than in previous periods, operators need to thank their customers for their continued tenure and spend on the network whilst providing flexibility to meet consumer's personal usage requirements.

"Perhaps now, global operators will have a renewed respect for the mass attraction and functionality of the prepaid mobile plan", says Michèle Scanlon, Principle Consultant, Green Giraffe.

Michèle Scanlon is principal consultant at Green Giraffe, an independent telecoms consultancy focusing on commercial prepaid strategies for mobile operators with a special focus on emerging markets. Michèle has 11 years experience of global mobile prepaid markets and has worked with Orga Systems and its operator client base in Latin America on improving prepaid customer focus and electronic recharge strategies.

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