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Fighting Smart: Using Value-Added Services To Create Lasting Customer Loyalty

Learn what 120 communication executives had to say about value-added services (VAS) trends in the Asia-Pacific market.

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Executive Summary

While the advance of mobile penetration and rapid deployment of 3G are a boost to service revenue for mobile operators across the Asia Pacific region, there is growing awareness that a business model built on the promise of continued expansion of the subscriber base is neither sustainable, nor particularly profitable. Put simply, many mobile markets across the Asia Pacific region are moving toward saturation in terms of penetration of addressable markets. Growth has to come from new services and finding ways to wring new value out of their existing customer base.

A new report from ABI Research, *Mobile Subscriber Usage and Traffic Market Data* (April 2011) confirms this mind set. It points out that average revenue per user (ARPU) has dipped, a development linked to the use of multiple SIM cards. Specifically, 4Q2010 saw total mobile service revenue grow to $1.4 billion, an increase quarter-on-quarter of 2.2%. However, ARPU for the same period dropped 2.1%. Read between the lines, and the pressure is on mobile network operators to look for new and innovative ways to generate revenues and secure competitive advantage by satisfying (not just multiplying) their customer base.

With tumbling voice tariffs contributing to declining ARPU rates, mobile operators are finding the solution in value added services (VAS). As ABI Research analyst Fei Feng Seet put it in a recent press statement: "More and more mobile network operators are looking 'outside the box' for new ways to generate revenue, which include adding new interactive value-added services such as mobile TV, mobile payments, mobile wallet, airtime transfer or even free music downloads which encourage more data usage."

This White Paper — based on a survey of 120 communication executives at major mobile operators across Asia Pacific and conducted in partnership with market research firm Coleman Parkes — confirms the central importance of VAS such as mobile payments, mobile advertising and contextual delivery (assisted by personalization technologies and perfectly aligned with subscriber segment profiles and preference) in mobile operator strategies..

It's the customer experience, stupid

Indeed, mobile operators are not only waking up to the opportunity; they are grabbing onto it with both hands. They are resolved not to be 'just a pipe' and determined to build a competitive edge. To this end, mobile operators are assembling an impressive arsenal of capabilities to stand up to competition from both digital rivals (social network giants, independent application storefronts, service providers) and companies jockeying to control mobile payments and commerce (traditional banks, credit card companies, intermediaries).

Our survey found that the majority of respondents (62%) believe VAS is important to their company and its bottom line. Furthermore, they are convinced that VAS will contribute significantly to their total revenues. Interestingly, the survey revealed that revenue generation is **not** the top motivation for developing and delivering VAS to mobile subscribers. The subscribers themselves are at the center of this strategy because it's all about keeping customers happy and loyal.

This allows us to conclude that mobile operators in Asia Pacific — more than in other regions such as North America and Europe — pursue a VAS strategy to deliver a compelling customer experience, one that will allow them to boost individual loyalty and the lifetime value of their existing customer base. In fact, the top two business drivers for VAS are stickiness and improving customer experience. These are followed more distantly by concerns such as "grow revenue to offset declining voice revenues", "extend business reach", and "get a return on 3G investments."

What business areas most concern mobile operators?

This White Paper divides the mobile operator business agenda into two segments:

- **Mobile payments**: transactions and mobile commerce on behalf of third parties including application storefronts, mobile content providers and virtual goods merchants like Facebook
- **Mobile Internet and personalization**: managing and monetizing operator portals and destinations, and mobile content/advertising schemes

Mobile Payments

Mobile operators may have lost the first few scuffles to traditional banks, credit card companies and a mixed bag of middlemen, but the battle is just beginning. Interestingly, Asian mobile operators are not only gearing up for a fight (with 95% of respondents claiming to have a mobile payments strategy); they are confident they will win. The key to their success: operator billing, a strategy that stresses billing on behalf of third parties including app stores and providers of virtual goods.

Among the findings:

- The top three reasons for pursuing mobile payments are new revenue streams, customer retention, and enhanced customer experience
- An overwhelming majority of respondents believe that operators should expect up to 15% revenue shares across the various mobile payments segments
- The majority of respondents believe they have a leg up on rival banks and credit card companies, making a play to own the mobile payments space

Mobile Internet and Personalization

Most mobile operators are confident that their portals and applications storefronts are and will continue to be crowd pleasers. This is a very different picture from other regions where mobile operator portals, destinations that once dominated the landscape are now facing challenges from OTT players.

What's more, 66% of respondents predict that their portals will grow in importance in the next three years, attracting and retaining a loyal audience of mobile users. Granted, respondents are aware of the threat from over the top (OTT) players (players that deliver services via operator networks but bypass them completely in the value chain). However, it is interesting to note that mobile operators in this region are also not intimidated by OTT rivals. On the contrary, they are confident that the threat from these players will diminish over time.

Why the positive outlook? No doubt mobile operators are confident that the value added services they have baked into their offers will allow them to deliver a superior customer experience and beat the competition at its own game. In addition to developing their mobile payment strategies, mobile operators are also sharpening their focus on mobile advertising, mobile search, and personalization — an approach that will allow them to super-charge VAS for maximum impact.

Among the findings:

- 75% of respondents are pursuing mobile advertising and search strategies — and for good reason! The majority (65%) report that their subscribers would be willing to view mobile advertising in return for free content such as mobile apps or entertainment.
- 50% of respondents believe that at least half of their subscribers will purchase smart phones over the next three years; Blackberry is the most popular platform followed by Android and Apple.
- 55% of respondents believe that personalization is the key to improving the value of content (and advertising) they deliver as part of the VAS offer

Summary

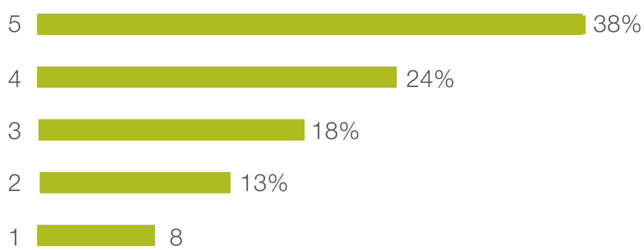
Mobile operators across Asia Pacific are actively pursuing strategies around mobile payments and personalization to carve out a central position in the value chain and improve the customer experience. Interestingly, the end-game is not about generating new revenues. It's about delivering a compelling customer experience in order to extract new value from existing customers. Additionally, it's a sharp focus on VAS that mobile operators believe will separate the market leaders from the also-rans. As a result, they are completely confident that the threat from OTT players will diminish over the next three years, a shift that will see their own destinations and services dominate.

Business value of value-added services

1.0 Value-added services growing importance

The majority of respondents reported that value-added services (VAS) are key. Specifically, 62% said that VAS is either important or very important to their company. In both Australia and India, the number of respondents convinced that VAS is key totaled (or even exceeded) 70%. In Thailand and Vietnam, roughly half of respondents held VAS to be important to their business.

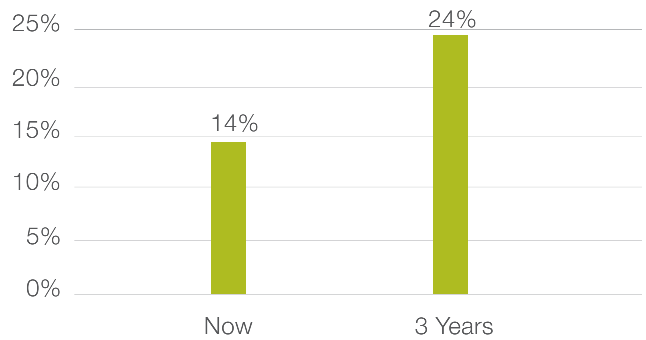
How important is value added services to your company? Please use a rating of 1-5, where 1 is not at all important and 5 is very important.



1.1 Value-added services revenue on the rise

Value-added services are not only destined to be more important to mobile operators moving forward, but respondents are also convinced that VAS will generate a significant percentage of their total revenues. Overall, respondents estimate that VAS currently accounts for 14% of revenues, with the total set to increase to 24% in three years. A breakdown by country reveals that Australian respondents have made the most progress, with VAS currently contributing 23% to revenues. This is forecast to rise to 30% in three years. Indian respondents are the most bullish about the outlook for VAS. Respondents in that country expect VAS to account for 29% of revenues in three years, up 17 percentage points from today's total of 12%.

What percentage of revenues do value-added services contribute to the total company revenue now? And in three years time?



1.2 Competitive advantage through customer loyalty

What is the business value of VAS? Surprisingly, the chief motivation is not money. In fact, the top two business drivers for VAS are stickiness (as a means to grow customer loyalty) and improving the customer experience. This is followed more distantly by a focus on growing new revenue streams and extending business reach. Connect the dots, and the end-game is about extracting more value out of existing customers — throughout the customer lifecycle.

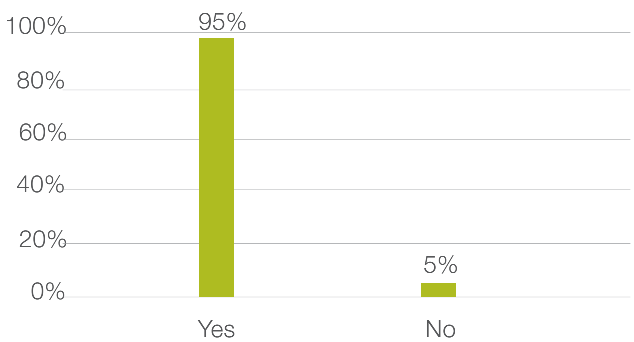
What are the main business drivers for growing focus on value-added services?

Mobile Payments

2.0 Pursuit of Mobile Commerce

Is mobile commerce poised to be the next big thing in mobile? It's a hard one to call. One thing is for sure: mobile operators are serious about the opportunities in mobile payments. In fact, the vast majority (95%) of respondents report that their organizations are actively pursuing clear and defined strategies aimed at increasing their ability to facilitate payments.

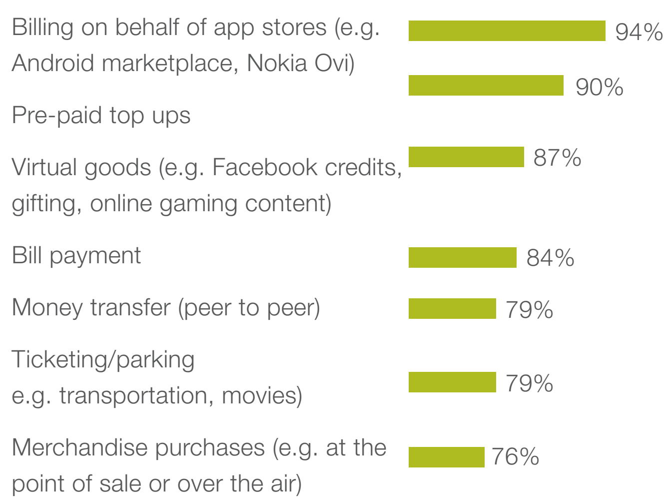
Does your organization currently have an active, defined strategy towards mobile payments for areas such as billing on behalf of app stores, virtual goods (Facebook credits, gifting online, etc.), ticketing/parking or merchandise purchases?).



2.1 Top Opportunities in Mobile Payments

Where is the money in mobile payments? Billing on behalf of (BOBO) mobile application stores, facilitating transactions involving virtual goods and enabling pre-paid top-ups are the top three mobile paymen markets that respondents plan to pursue.

Do you plan to pursue the mobile payments market with regard to ...?

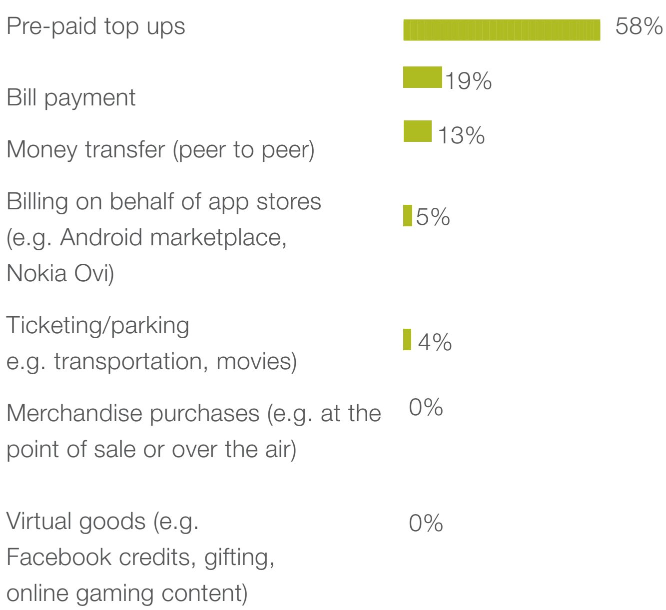


However, the most attractive opportunities are not necessarily the most important. While 94% plan to pursue mobile payment strategies to take advantage of opportunities presented by mobile app stores, only 5% consider this to be their most important segment. A closer examination reveals that respondents believe enabling pre-paid top ups is the number one segment. In fact, results range from 50% (in India) to 70% (in Australia). This is followed by bill payments (19%) and money transfers (13%).

To date, mobile operators in the Asia Pacific region are still reliant on what might be considered traditional payment segments. However, they are also eyeing the revenue opportunities offered by VAS services such as the ability to bill on behalf of third-party app stores and providers of virtual goods and gifting schemes.

Mobile Payments (continued)

Of these segments, what is the most important to you? (choose one)



2.2 Mobile Payments Drivers

Mobile operators have shifted their mobile payment activities into high gear. But what is the pay off? Respondents report that the top three reasons for pursuing mobile payment opportunities are the chance to tap new revenue streams, improve customer retention and deliver an enhanced customer experience.

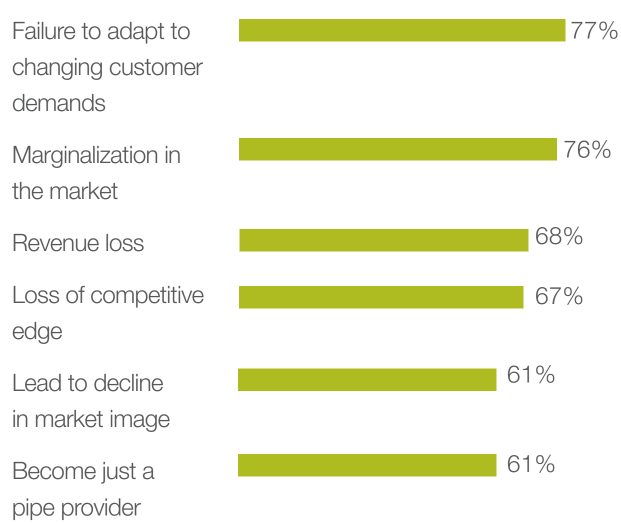
What do you believe to be the major benefits to your organization being involved in mobile payments?

Respondents clearly see two broad tracks of benefits. The first is all about the customer and wielding payment capabilities to improve and enhance the overall customer experience. The second is squarely focused on organizational positioning and harnessing payment capabilities to improve overall competitiveness.

2.3 Marginalization is the Biggest Risk

Mobile payments are where the action is. But what is at stake for mobile operators that fail to adapt to the changing market? The majority (77%) believe that failure to enable mobile payments and mobile commerce might cost them their ability to meet growing customer demand. Additionally, 77% fear a loss of potential revenue streams as a result of being marginalized by other payments players. Clearly, there is a lot at stake. Respondents are concerned that lacking the VAS portfolio to offer and enable payments may have serious consequences for their business.

What do you believe to be the major drawbacks to not adapting to the growth of mobile payments and m-commerce?



Mobile Payments (continued)

2.4 Revenue Share Expectations

The advance of mobile payments and mobile commerce changes all the rules. It also impacts the value chain and the share of revenues each player (merchant, bank, payment middleman, mobile operator, etc.) can extract from enabling mobile transactions. In fact, the overwhelming majority of respondents believe that operators should expect a 15% revenue share across the mix of mobile payments markets. However, there were some significant differences according to country and segment. Australian respondents, for example, reported that they expect double-digit revenue share in most mobile payments markets, most notably in money transfer where they believe operators will grab a 17% share. Respondents in India expect to take 20% of pre-paid top up revenues, a percentage higher than in any market surveyed.

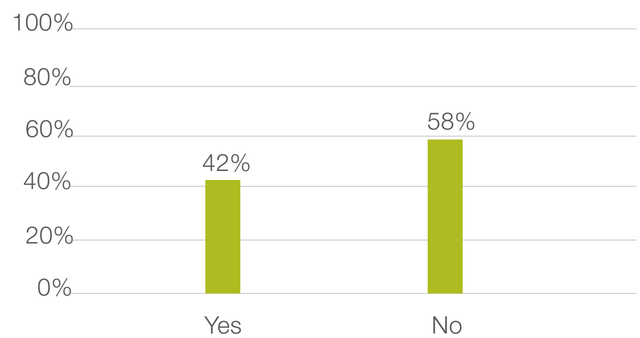
What revenue share can/should operators expect in the mobile payments markets over the following segment?

2.5 Heading for a Showdown

All players — including mobile operators — are jockeying for position in the mobile payments market. With competition heating up across the region, we asked the question: do you think mobile operators are headed for conflict with traditional banks and credit card companies? The results are surprising. While almost half (42%) of respondents agree that mobile operators are headed for a showdown, the percentage of respondents that agree with this scenario differs significantly.

- In Australia only 25% of respondents agree
- In India the total was 33%
- In Thailand the total was 50%
- In Vietnam the total was 90%

With commerce poised to be THE next big thing in mobile — do you think operators are heading for conflict with traditional banks and credit card companies?



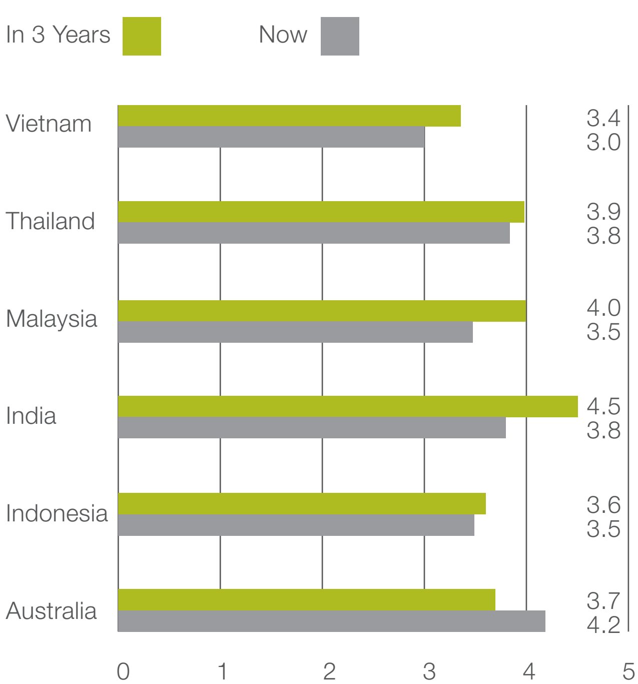
These findings indicate a connection between mobile operators' perception of their competitive capabilities and the current state of the banking and financial services industry in their country. There is a high percentage of consumers that have poor access to financial services such as banks in a number of Asia Pacific markets, especially India (98%) and Indonesia (75%), two of the largest Southeast Asian markets. However, mobile has a much higher penetration rate.

Mobile Internet and Personalization

3.0 Increasing Mobile Storefront Significance

The mobile operator portal may be on the decline in North America and Western Europe. But these destinations are still core to customers' mobile Internet experience across the Asia Pacific region. Against this backdrop, the majority (61%) of respondents are confident their portals are important destinations. What's more, 66% of respondents expect their portals to play an even more important role in three years. A breakdown of regions shows that respondents across all countries are positive about the future role of mobile operator portals. Specifically, all countries except Australia (where respondents already consider their portals to be primary destinations) are convinced that their customers will place more importance on operator portals and storefronts in the future. This is particularly true among respondents in India, where the average importance rating rose from 3.8% (now) to 4.5% (in three years).

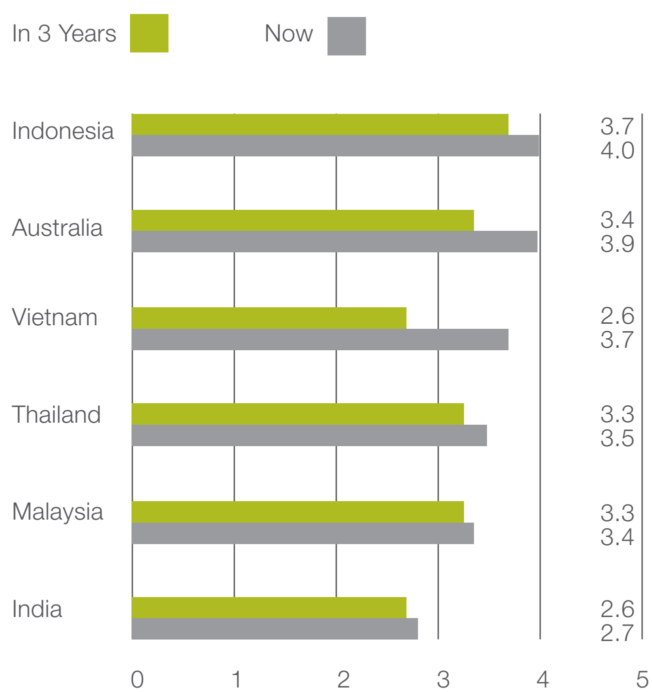
How important do you think your portal/storefront is to your customers now, and how important will it be in three years time? Please use a rating of 1-5.



3.1 Capabilities to Beat the Competition

Predictably, more than half (57%) perceive over the top (OTT) players (those that deliver services via their networks but bypass them completely in the value chain) to be a competitive threat. However, the vast majority of respondents are confident the situation is only temporary. Put simply, the majority expect the competitive threat from OTT players to diminish over the next three years. This level of confidence indicates that respondents are fully aware of the risks and have taken steps to implement policies and strategies to offer VAS and successfully meet and beat competition from OTT rivals.

Currently, how big a threat do you see over the top players? Can they turn you into just a pipe? Please use a rating of 1-5.

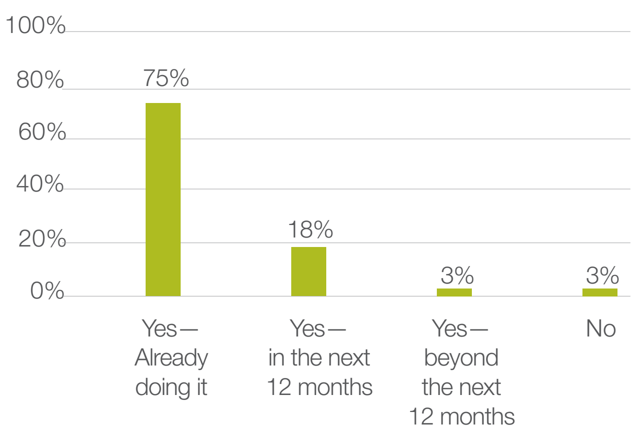


Mobile Internet and Personalization (continued)

3.2 Mobile Advertising and Search Climb the Agenda

Some 75% of respondents say they are already pursuing strategies around mobile advertising and search. The level of activity differs from country to country, with a whopping 91% of respondents in Indonesia reporting that they are active in mobile advertising and search. In comparison, 50% of respondents in India report they are already pursuing strategies around mobile advertising and search. A further 18% of respondents report that their organizations are gearing up to make progress in these areas in the next twelve months.

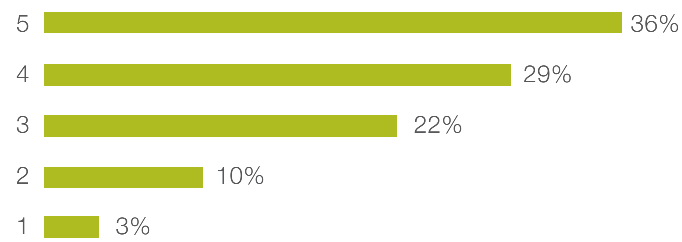
Do you plan to pursue mobile advertising and search?



3.3 Customers Open to Ad-Supported Schemes

The race is on to develop and deploy strategies aimed at advancing mobile advertising and search. And with good reason since the majority (65%) of respondents report their subscribers would be willing to view mobile advertising in return for mobile content, applications and other perks. However, respondents in India, a market where mobile spam has had a negative impact on consumer acceptance of mobile advertising, are less certain their subscribers would welcome ad supported content and apps. Specifically, only 37% of respondents there say their customers would be willing to view advertising on their mobile phones.

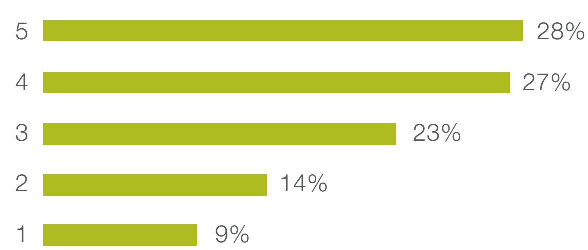
How willing are your customers to view ads for free content with regard to both apps and non-apps? Please use a scale of 1-5, where 1 is not at all willing and 5 is very willing.



3.4 Personalization Clinches the Deal

Mobile advertising schemes may whet customers' appetites for content and applications. But personalization is becoming the must-have feature of all the content mobile operators offer — and that includes mobile advertising, which is essentially just another form of mobile content. Overall, 55% of respondents reported that personalization capabilities (including recommendations, searches and targeted ads) are an important feature of the mobile experience. A country breakdown shows that 60% of respondents in Australia believe personalization is key, compared with 40% of respondents in Vietnam.

How important is personalization such as using artificial intelligence like Amazon to improve on/off portal content recommendations, searches and targeted ads? Please use a rating of 1-5.



Methodology

- The questionnaire was carefully designed in collaboration between Coleman-Parkes and Amdocs to seek information regarding the views and opinions on the subject of value-added services among service providers in Asia Pacific markets.
- The following is based on the full data set of 120 interviews conducted in the following markets:

Market Number of interviews	
Australia / New Zealand	23
Indonesia	22
India	22
Malaysia	23
Thailand	20
Vietnam	10
Total sample	**120**

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